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Some think the dollar has fallen too far. On the contrary, it has not fallen by enough ... More on this week's lead article

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Politics this week

Feb 5th 2004
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Unsettling the settlers

AP

Israel's prime minister, **Ariel Sharon**, shook Israelis by declaring that he would remove all Jewish settlements in the Gaza Strip as part of his plan to "disengage" from the territories occupied by Israel since the war of 1967. Some 7,500 Jews live alongside 1.2m Palestinians in Gaza. Both the Labour opposition and the Palestinian Authority's prime minister, Ahmed Qurei, cautiously welcomed the move.

See article: Ariel Sharon's controversial proposals

Two suicide bombers in Arbil, capital of the **Kurdish** part of Iraq, blew up the offices of the two main Kurdish parties, killing more than 100 people, according to Kurdish groups, most of which blamed Ansar al-Islam, a Kurdish Islamist group close to al-Qaeda.

See article: The consequences of bloodshed in Iraqi Kurdistan

The American deputy defence secretary, Paul Wolfowitz, said in **Baghdad** that most American troops in the capital would be withdrawn to bases just outside it. He said that Iraqi police would take up the slack, but many Baghdadis doubted whether they are capable of doing so.

Over a third of the **Iranian** parliament resigned after the Guardian Council, a body of appointed clerics and lawyers, upheld the disqualification of more than 2,000 prospective candidates, all reformers, hoping to stand in a general election due on February 20th. Next day, the main reformist party, the Participation Front, said it would boycott the poll.

See article: Iran's political crisis

Hopes rose that peace talks may be held between **Sudan's** government and groups involved in recent fighting in the western province of Darfur. The clashes have damaged prospects of a wider peace between north and south.

Intelligence test

George Bush said he would launch an "independent bipartisan commission" to look at **intelligence failures** and WMD programmes. The inquiry, which will study Iran, Libya and North Korea as well as Iraq, is not expected to report until after November's election. In Britain, Tony Blair set up an inquiry into the collection and use of intelligence prior to the Iraq war.

See article: A probe into what went wrong in Iraq

John Kerry won five of the seven Democratic primary elections held on February 3rd. John Edwards won South Carolina, but was narrowly beaten in Oklahoma by Wesley Clark. Joe Lieberman, Al Gore's running mate in 2000, withdrew from the race.

See article: America's Democratic primaries

Mr Bush unveiled a $2.4 trillion **budget** for the 2005 fiscal year, beginning in October. It includes proposals to increase spending on homeland security by 10% and defence by 7%.

See article: George Bush's budget for 2005

The Senate shut its administrative buildings after **ricin**, a lethal poison, was found in the office of the Republican majority leader, Bill Frist.

See article: Now it's ricin

Rejecting a compromise “civil union” proposal, the Massachusetts Supreme Court ordered the state to go ahead with **gay marriages** in the summer.

Conviction politician

Despite conviction in a political-corruption trial, **Alain Juppé**, a former French prime minister and close ally of President Jacques Chirac, is remaining as a member of parliament, mayor of Bordeaux and president of Mr Chirac's centre-right UMP party. Mr Juppé is appealing against both verdict and sentence, of 18 months in jail (suspended) plus a ten-year ban on elective office.

See article: The conviction of Alain Juppé

France's National Assembly began debating a controversial bill to ban the wearing of the **Muslim headscarf** and other ostentatious religious symbols in French state schools and other public institutions. Some other countries in the European Union are talking about a similar ban.

See article: Integrating minorities in France and Britain

After deadlock since the **Serbian general election** in December, Vojislav Kostunica, leader of the Democratic Party of Serbia, is close to forming a government. Mr Kostunica, who ousted Slobodan Milosevic as Yugoslavia's president in 2000, saw his candidate made speaker of parliament. He may now form a minority government, with tacit support from Mr Milosevic's Socialist Party.

Sweden became the latest EU member to impose temporary restrictions on the free movement of workers from the eight **central European countries** that will join the EU on May 1st. Only Britain and Ireland will have no restrictions. But, fearful of a stampede of benefit-seeking Roma (Gypsies), Britain is toughening eligibility rules for benefits.

See article: Immigration from Central Europe

Defusing the bomb threat

Six-way talks attempting to resolve the crisis over **North Korea's** illicit nuclear-weapons programme have been scheduled to resume on February 25th. The talks will involve both Koreas, America, China, Japan and Russia.

A BBC documentary claimed, on the basis of evidence from defectors including a prisoner and a camp commander, that **North Korea** has been testing chemical weapons on political prisoners.

Abdul Qadeer Khan, the father of **Pakistan's** nuclear bomb and a national hero, admitted passing nuclear secrets and equipment to Iran, North Korea and Libya. Four other scientists are also implicated but officials denied involvement by the government, military or intelligence services.

See article: Pakistan's proliferator-in-chief

Pressure to bear

Caricom, the 15-member Caribbean Community, tried to bring peace to troubled **Haiti**. It called on President Jean-Bertrand Aristide to disarm pro-government gangs, release political prisoners and invite the opposition to join a new advisory council. He accepted. But the opposition wants Mr Aristide to resign.

See article: An attempt to settle Haiti's power struggle

Deputy trade ministers from 34 countries, meeting in Mexico, began by reaffirming their differences over the proposed **Free Trade Area of the Americas**. Brazil wants an “FTAA-lite”; America has offered deeper bilateral agreements to a dozen countries.

See article: Brazil's new trade diplomacy

More trouble for **Peru's** deeply unpopular president, Alejandro Toledo. He said he knew nothing of a meeting between his former lawyer and an associate of Vladimiro Montesinos, the jailed former spy chief. Mr Toledo's prime minister said the opposition might join the government.

See article: Peru's scandal-hit government

In the Throne Speech setting out his legislative programme, Paul Martin, **Canada's** new prime minister, offered extra cash for cities and health care but also pledged budget discipline. A manifesto for a May election, said the opposition.

See article: The legislative plans of Canada's Paul Martin

Unusually heavy rains and flooding have killed 91 people, made 117,000 homeless and destroyed 51 bridges in **Brazil** since December.

EPA

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Business this week

Feb 5th 2004
From The Economist print edition

Oracle ups its bid

Oracle, the world's second-biggest software firm, increased its unsolicited offer for PeopleSoft by a third to $9.4 billion. PeopleSoft's boss, Craig Conway, had vowed that he “could imagine no price nor combination of price and other conditions to recommend accepting the offer”. Shareholders may now disagree.

See article: Oracle ups its Peoplesoft bid

Cisco Systems added to the evidence of a tentative recovery in technology spending. The American network-equipment giant said that profits were down in the latest quarter after charges related to stock options at a subsidiary, but that revenues had increased by 15%. But investors remained pessimistic; the firm's shares dropped, dragging down other tech shares.

Pixar, an American computer-animation firm responsible for “Finding Nemo” and other cartoon hits, surprised Hollywood insiders by breaking off talks to renew a funding deal with Disney. Pixar wanted more of the profits; Disney refused. Also, Pixar's boss, Steve Jobs, and Disney's Michael Eisner, are thought not to like each other much.

See article: Face value: Steve Jobs

Tyco reported that profits in the fourth quarter rose by 23% compared with a year ago, to $719m. The Bermuda-based conglomerate has bounced back after the financial havoc caused by a former boss, Dennis Kozlowski. He is currently on trial in New York on charges of looting Tyco to enrich himself and others.

Halliburton was in the soup over allegations that it had presented an inflated bill for serving meals to American troops based in Kuwait and Iraq. The company, formerly run by Dick Cheney, America's vice-president, agreed to repay $27m to the American government.

Arnold Schwarzenegger offered to act as an intermediary to help terminate a strike at Californian branches of Albertson's, Kroger and Safeway, three of America's largest **grocery chains**. Some 70,000 employees have been on strike since October protesting against plans to reduce their medical benefits.

Landing rights and wrongs

Ryanair got a slap on the wrist from the European Commission. It ruled that Europe's biggest low-cost airline had received illegal aid from Belgium's Charleroi airport. Ryanair will have to return a quarter of the subsidies—around *euro*4m ($5m). The ruling threatens similar deals with other airports. Ryanair said it will appeal.

See article: Another ruling against Ryanair

Transatlantic flights operated by **British Airways** and **Air France** suffered further disruption. Several America-bound services were cancelled after intelligence sources raised fears of potential terrorist action. One internal flight in America also stayed on the ground.

See article: Airline security and armed guards

Make-up break up

Kanebo, a Japanese consumer-goods firm, said that it is negotiating to sell its cosmetics arm to a rival, Kao, for some ¥400 billion ($3.8 billion). The pair had been negotiating a joint-venture but Kanebo probably prefers cash to service a huge debt pile.

Following the **Parmalat** scandal, Italy's cabinet agreed to the creation of a new super financial agency to beef up regulation, though it will not be as tough as many had hoped.

See article: The politics of a scandal

Eurex blows in

The **Chicago Board of Trade** announced plans to drop fees and trade German government-bond futures to counter competition from **Eurex**. The Swiss-German derivatives exchange won approval from regulators to launch its American service and challenge the CBOT on its home turf.

Banco Bilbao Vizcaya Argentaria surprised observers with its offer of $4.1 billion for the 41% it does not already own of Bancomer, Mexico's largest bank. The Spanish giant and other big banks have gradually acquired Mexico's banks since the country's banking system crashed in 1995 after a financial crisis and the collapse of the peso.

Royal Bank of Scotland, Britain's second-biggest bank, agreed to pay $2.7 billion for the credit-card business of America's People's Bank to gain a foothold in America.

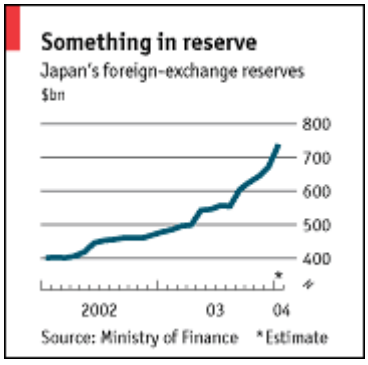
The Bank of England raised **interest rates** by a quarter of a percentage point to 4%, the second increase in three months. The Bank expressed concerns about the booming housing market and high levels of consumer debt.

See article: The interest-rate rise

Land of the rising yen

Ahead of a meeting of **G7 finance ministers** in Boca Raton, Florida, Japan revealed that its central bank had spent ¥20 trillion ($173 billion) last year in trying to stem the yen's rise, lifting reserves to a record $674 billion. Intervention has proved modestly successful: the yen hit a three-and-a-half year high against the dollar.

See article: Is the dollar too weak or too strong?



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The dollar

Let the dollar drop

Feb 5th 2004
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Some think the dollar has fallen too far. On the contrary, it has not fallen by enough

Get article background

THE dollar is the world's dominant currency. Should the world therefore be worried by its recent plunge against other currencies? Plenty of people seem to think so. When central bank governors and finance ministers of the G7 economies meet this weekend in Boca Raton, Florida, the fate of the dollar will be high on their agenda. Since 2001 the dollar has fallen by 33% against the euro and by 15% against the Japanese yen. Currency traders around the globe will scrutinise every word from Boca Raton, looking for a signal that governments might act together to stem the dollar's decline. Many businessmen will be holding their breath as well.

This is understandable. Any shift in currencies produces winners and losers. And yet the real problem facing the world economy is not a suddenly weak dollar, but a dollar which remains, even after its recent decline, too strong. The drop in the greenback was inevitable and should benefit both America and other countries, because it will help to reduce America's vast current-account deficit, which is arguably one of the biggest threats to the global recovery. For the same reason the dollar should, and almost certainly will, fall further. But some countries are not prepared to allow the dollar to fall by enough to complete the necessary adjustment to America's finances.

America's current-account deficit stands at 5% of GDP, and most economists reckon that this percentage needs to be reduced by at least half. That would stabilise the ratio of America's foreign liabilities to GDP, which has surged in recent years. So far the dollar has fallen by 15% in trade-weighted terms against a broad basket of currencies. Nevertheless, after adjusting for inflation, its value is still close to its 30-year average. It may need to fall by another 20% over the next few years if the current-account deficit is to be halved (see article).

American policymakers seem happy to let the dollar slide. Europeans, however, complain that the burden of adjustment has fallen disproportionately on their currency, the euro. As the euro has soared against the dollar, central banks in Japan, China and other Asian countries have bought dollars to hold down the value of their own currencies. By doing so, they financed over half of America's current-account deficit in 2003. Without that money the dollar would have fallen further.

Missing signals

In the short term, Asia might thus be seen as America's saviour. But in the longer term Asian governments are delaying a necessary adjustment by allowing America's deficit to loom large for longer. This is likely to lead to an even bigger and more dangerous build-up of American foreign debt.

The behaviour of Asia's central banks has also blunted the necessary market signals to which even America must, eventually, pay heed. The current-account deficit is a direct, arithmetical reflection of insufficient domestic saving. In particular, America needs to prune its government budget deficit. However, it feels even less reason than usual to do so. Normally, when a government's budget deficit swells so fast (to 4.6% of GDP this year, from a surplus of 2.4% of GDP in 2000) and its currency is falling, investors would demand higher bond yields to compensate them for the increased risk. That penalty gives governments both a warning and an incentive to borrow less. But Asian governments are

devouring American Treasury bonds with little regard for the usual risk-return characteristics. As a result, bond yields are being held artificially low, subsidising America's borrowing spree.

This has allowed the Bush administration to point misleadingly to low bond yields as evidence that its budget deficit is not harming the economy, and to think that cutting the deficit is less urgent. President George Bush's plan, set out this week in his budget, to halve the deficit over five years is based on unrealistic assumptions and fantasy accounting (see article). A fiscal stimulus was justified when the American economy was on the brink of a deep recession in 2001, but now that the economy is booming again, borrowing needs to be cut.

Asia's game

In essence, Asian governments are buying American Treasury bonds in order to ensure that Americans can afford to keep spending money on Asian goods. This cannot go on forever. Despite their mercantilist instincts, sooner or later Asia's central banks will have to face the fact that they are holding far too many risky, low-yielding dollars. If they stop buying, it could trigger a sharp fall in the dollar and a jump in bond yields. Delaying the natural adjustment in the dollar and bond yields is likely to mean that, when the inevitable correction comes, it will be much more painful.

If financial markets do turn nasty, then everybody will carry some of the blame. Japan and China will be guilty of trying to block market forces and hence an earlier adjustment in America's trade deficit. With Japan's economy now growing faster than the euro area and its firms' profits surging, Japan can probably afford a stronger yen. Its continuing worry about deflation can be better addressed by printing more money. And China needs to allow its currency to move upwards, not just to help the rest of the world, but also to rebalance its own overheating economy. Without such a rebalancing, inflation or a property boom and bust could destroy growth. The Chinese might find it easier to accept such advice if they are given a seat at the G7 table, where they clearly belong.

The euro area is also far from blameless. Policymakers wring their hands about the “brutal” rise in the euro, yet the euro is still close to fair value against a basket of currencies. If Europeans are worried that a stronger euro will hurt their economies, then the solution is simple: the European Central Bank should cut interest rates to boost demand.

However, America must bear much of the blame for its failure to do anything to curb household and government borrowing and so boost saving. Its easy monetary and fiscal policies are now beginning to look reckless. The dollar's slide has rightly shifted some of the burden of economic adjustment on to other economies. Sooner or later, though, America will have to face up to its own responsibilities, too.

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France's president

Excessively immune syndrome

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Nobody should be above the law—not even Jacques Chirac

AFP

ANOTHER week, another French politician convicted of corruption. Only this time the politician, Alain Juppé, was not just a former prime minister, serving mayor of Bordeaux and president of the ruling UMP political party. More tellingly, he was the protégé, closest associate and preferred successor of the French president, Jacques Chirac. And the party-financing chicanery for which he was convicted took place when he was working for Mr Chirac, then mayor of Paris, in the mid-1990s. Indeed, the judges hinted strongly that Mr Chirac was really responsible.

Mr Juppé is appealing against his conviction (see article). But the case raises an obvious question: why is the president not in the dock as well? The answer is that, under the constitution, he enjoys sweeping immunity from prosecution for any offence short of high treason, even one committed before he assumed office. In 1999 Mr Chirac obtained a ruling from France's constitutional council that this immunity allowed him to refuse to answer questions put by an investigating magistrate. Mr Chirac insists that the immunity is meant not to protect him, but to uphold the dignity of the presidency—although he has conceded that the constitution should have a mechanism for presidential impeachment.

It is true that, in many countries, presidents, prime ministers and other office holders enjoy various immunities. They cannot be sued for what they say in parliament, for example; nor, in general, can they be prosecuted for acts undertaken as part of their official duties. The reason for such immunities is partly historical—monarchs could not be tried in their own courts. But it is also practical: nobody wants heads of government to be distracted by a wave of lawsuits that might be malicious in intent or politically motivated.

Yet Mr Chirac's immunity goes far beyond what is needed to avoid distractions. It extends to criminal as well as civil acts, and it covers deeds, such as those for which Mr Juppé was convicted, that have nothing to do with official duties. In effect, it puts Mr Chirac above the law—so long as he remains president. That has a perverse effect on French politics, by giving Mr Chirac a big incentive to remain president. If he seeks to return to the Elysée palace in 2007, when he will be 74, it may just be to avoid a trip to the palace of justice.

Mr Chirac's immunity is also far broader than that of most of his counterparts. The American president can, as Bill Clinton famously discovered in the Paula Jones case in 1997, be called to answer even civil lawsuits. Israel's Ariel Sharon may soon face criminal charges. Most European heads of government are subject to normal prosecution for criminal (and sometimes also civil) offences. Indeed, Italy's Silvio Berlusconi is due to return to court soon—after his attempt to give himself just the sort of immunity that Mr Chirac enjoys was thrown out by Italy's constitutional court last month.

The court's reasoning should apply to Mr Chirac as much as to Mr Berlusconi. In particular, the Italian justices rejected the immunity bill because it contravened the well-understood principle that everybody should be equal under the law. Far from lending dignity to the French presidency, Mr Chirac's immunity, even from criminal investigation, brings the office, the state and the entire judicial system into disrepute. It is time to amend the French constitution to bring presidential immunity into line with other countries—and to call Mr Chirac, as much as Mr Juppé, to account.

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Israel and the Palestinians

Sharon's surprise

Feb 5th 2004
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Scepticism is in order. But leaving Gaza could help Israel towards a wider peace

Get article background

UNTIL this week, the peace process in the Middle East looked stuck. The so-called road map under which the Americans proposed to guide Israel and the Palestinians towards George Bush's "vision" of a two-state solution had been rolled up if not thrown away. Ahmed Qurei, the Palestinians' prime minister, was refusing to meet Ariel Sharon while Israel continued building its controversial security wall. Mr Bush failed even to mention Palestine in his state-of-the-union speech. Hope was being kept alive mainly by freelance initiatives such as the Geneva Accord, a splendid plan concocted by private Israelis and Palestinians with no authority to make a deal.

What, then, to make of Mr Sharon's startling announcement that he intends to evacuate all Jewish settlements from the Gaza Strip (see article)? Among peaceniks, the first reaction has been extreme scepticism. Mr Sharon has talked vaguely before about the "painful concessions" he would be willing to make for peace, but for which the moment is somehow never ripe. He has done next to nothing to fulfil Israel's obligations under the road map, arguing that the Palestinians have not lived up to their obligation to cease fire and dismantle the terrorist networks of groups such as Hamas and Islamic Jihad. Besides, might Mr Sharon's diplomacy be motivated by a desire to divert attention from the corruption inquiry snapping at his heels, rather than a genuine change of heart?

Scepticism is plainly in order. But it would be a mistake to dismiss Mr Sharon's announcement as merely a stratagem. If it were no more than that, would he have dared to antagonise so many within his own Likud Party and the parties to the Likud's right that prop up his coalition? It is true that he could probably rely on Labour to support his government if the right bolted—but only if Labour was sure that this time Mr Sharon meant what he said. And although withdrawing the 7,500 Jewish settlers from the Strip would be traumatic for the wider settler movement, it might not be unpopular with Israelis as a whole. Polls suggest that 60% favour the move.

But after Gaza, what next?

In short, there are good reasons to suppose that Mr Sharon may indeed be willing—over a year or two, according to his deputy—to evacuate Gaza. But here lies a paradox. The very things that make his Gaza plan just about believable also add to Palestinian scepticism about his broader intentions. Of course it would suit Israel to get out of the Strip: Mr Sharon has already threatened to "disengage" unilaterally from the occupied territories if no deal can be signed. Quitting Gaza, the Palestinians fear, will simply give him diplomatic cover, and free resources he can concentrate on his longer-term strategy, which they claim is to use the security wall to carve out a Greater Israel on large chunks of the West Bank, the bit of occupied territory Israel really cares about and where there are settlers in their hundreds of thousands, not just thousands.

Here, the sceptics are on stronger ground. Mr Sharon says he accepts Mr Bush's vision of an independent Palestine in the West Bank and Gaza. But neither he nor a lot of other Israelis accept the Palestinian argument that its borders should be the pre-1967 armistice line that separated Israel from Jordan. The wicked issues—Jerusalem, settlements and refugees—that wrecked Bill Clinton's Camp David summit between Labour's Ehud Barak and Yasser Arafat four years ago are no less thorny today; and after all the killing of the ensuing *intifada*, the hatred goes deeper. So although an Israeli withdrawal from Gaza

would be good in itself, easing life for the Palestinians there and reducing armed friction between the two sides, it would not lead automatically to a broader peace.

This is, nonetheless, an opportunity. For Mr Sharon has now signalled that even an Israeli super-hawk and ardent champion of settlement is pragmatic enough to have given up the Likud's Begin-era dream of clinging on to all of the occupied territory for ever. The issue now for most Israelis is not whether to withdraw and evacuate settlements, but how far to withdraw, and which settlements. Some fear that by quitting Gaza unilaterally—"under fire", as when Israel left Lebanon in 2000—Mr Sharon will encourage the Palestinians to think that they can claw back all the land by continuing the *intifada* and making no peace. That would be a bloody mistake. The Palestinians would do better to resume their negotiations with Israel, and thereby connect Mr Sharon's Gaza-first plan to a more comprehensive arrangement. And that calls in turn for Mr Bush, America's election year notwithstanding, to unroll that road map—and kick the two sides along it.

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The WMD inquiries

Just the facts

Feb 5th 2004
From The Economist print edition

What the British and American intelligence inquiries can and cannot do

UNSCOM, UNMOVIC, the ISC, the FAC, the ISG, the CIA: even confining it to those with handy acronyms, the list of organisations that have scrutinised Saddam Hussein's weapons of mass destruction, and the pre-war “intelligence” concerning them, is already bafflingly long. In general, the conclusions reached by these bodies have been doubted, then forgotten; ongoing inquiries by congressional committees in America have been superseded even before they are finished. Will the new panels set up by George Bush and Tony Blair this week produce conclusions that are any less perishable or more definitive? They might—if they ask the right questions.

The wrong question is whether America and its allies were right to invade Iraq. Though that question matters, a commission could no more provide a definitive answer than it could establish wherefore the wicked prosper. Where would the commissioners start, and where finish? They would have to take account of all the UN resolutions and reports now forgotten by those who think Anglo-American intelligence was the only reason to believe Mr Hussein was up to no good. But how about the long-alleged atrocities that have been confirmed by post-war excavations in Iraq? Say it were proven that Mr Bush went to war partly to democratise the Middle East, or to demonstrate American power *pour encourager les autres* members of the axis of evil: was he wrong? And so on. *The Economist* continues to think the war was justified; but no inquiry can verify or refute that view. Nor can it establish whether the war has made Iraq and the world better and safer. For that, even more than for the French revolution, it is too early to tell.

The inquiries can, however, get to the bottom of what British and American spies and politicians knew (or thought they knew) about Iraq's WMD and terrorist connections. David Kay, the ex-weapons inspector who forced a probe on Mr Bush, who in turn thrust one upon Mr Blair, told Congress that Iraq was indeed a danger. The spies may yet turn out to have done a better job in 2003 than in 1991, when they underestimated Mr Hussein's nuclear progress. But given the apparent absence of any actual WMD in Iraq, the new panels must ascertain where the CIA, MI6 and other agencies went wrong. Did they invest too little in on-the-ground agents—a conclusion reached in a different context by a congressional inquiry into September 11th? After the UN inspectors left Iraq, did they wrongly extrapolate from old information? Were they over-reliant on defectors, exiles and inconclusive satellite images? Did senior officials gloss over uncertainty, or quail in the face of demanding politicians?

As for those politicians: when they dragged intelligence into the light, did they exaggerate, whether by omission of caveats and provisos or otherwise? We think they did—and that Vice-President Dick Cheney has, reprehensibly, continued to do so until very recently. But only up to a point: even the dissident voices within intelligence circles say only that the two governments firmed-up analysts' conclusions, not that they made them up altogether. In particular, did Mr Bush's team allege a link between Iraq and al-Qaeda that the data didn't substantiate? Did they lean on the spies to come up with the “right” answers? Some say they did; others, including Mr Kay, say they didn't. If he is right, why did some American assessments of the Iraqi threat become gloomier, even, as it now appears, as the sources for those assessments became weaker?

These are the questions that can and should be answered. That will require the Bush administration to co-operate more fulsomely with the new panel than with the one investigating September 11th. Mr Blair says the British inquiry ought not to cover the ethics of the politicians, since the Hutton report, published last week, has already acquitted them. He is wrong: Lord Hutton's remit was marginal and his approach

narrow. Mr Blair's government says the new commission will be modelled on the Franks Committee, which looked into how Britain was caught on the hop when Argentina invaded the Falkland Islands (another intelligence triumph). That inquiry examined the politicians as well as the spooks, as should this one.

Both new panels will be asked to consider the wider question of how the intelligence services of their respective countries monitor WMD proliferation. It is indeed hugely important that Britain and America work out how they could (in Mr Kay's words) have got it wrong on Iran, Libya and North Korea, as well as on Iraq, just as it is important for America to learn the lessons of September 11th. But these broader issues should not delay or obscure the answers about Iraq to which the British and American publics are entitled.

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Pakistan's nuclear services

Flat-pack proliferation

Feb 5th 2004
From The Economist print edition

The damage is incalculable. Time for a rethink

Get article background

AP

IT IS not only in the furore over Iraq's missing weapons that an intelligence analyst's place is in the wrong. In tracking Pakistan's once secretive nuclear links with North Korea, Iran and Libya, suspicion and less-than-perfect intelligence appear to have led western proliferation-watchers to underestimate an industry with a dangerous new business model: call it flat-pack proliferation. After the confessions this week of Pakistan's top nuclear scientist about the secrets he has sold (see article), the future looks incalculably more threatening.

It is not that inspectors, first allowed into Iran, then Libya (though not yet defiant North Korea), were surprised to find that both governments had lied about their nuclear dabbling; outsiders had long suspected as much. What takes the breath away is the sheer scale, and the apparent ease with which it was done. Weapons blueprints (so Libya has admitted; the others aren't saying), materials and parts for thousands of centrifuges to enrich uranium from which bombs can be made, as well as for related nuclear processes, were bought, in effect, by mail order, like so many assemble-it-yourself bookshelves or kitchen cabinets. Thoughtfully, there was after-sales service laid on for nuclear enthusiasts having difficulty following the instructions: technical questions could be relayed back to the scientists at source, presumably in Pakistan where the whole illicit business originated. Middlemen operating from Europe, the Middle East, Africa and Asia were on hand to speed delivery and process payment.

Since the dawn of the nuclear age, there have been few illusions that all nuclear leakage could be halted; the basic technology for bomb-making is by now almost 60 years old. Thus the anti-proliferation effort has concentrated on safeguarding the fissile material needed for a nuclear weapon's explosive core. The shock discovery in the early 1990s of how close Iraq had come to a bomb, without the inspectors knowing, led to radical redesign of these safeguards: countries that have implemented the new rules (dispiritingly, fewer than 40) let inspectors from the International Atomic Energy Agency, the UN's nuclear watchdog, snoop around far more intrusively than before. Better if fewer countries had access to dangerous nuclear-fuel technologies anyway. But that is still not enough.

Pakistan built its nuclear weapons outside the Nuclear Non-Proliferation Treaty that North Korea, Iran and Libya were caught breaking, and is an outlaw unto itself. But its nuclear trafficking—blamed by the government entirely, if not wholly plausibly, on rogue scientists out to line their own pockets—also explodes the complacent assumption held by some that even if the bomb spreads, those who acquire it can always be deterred from using it. Rogue governments that passed on their nuclear secrets to other governments (China helped Pakistan get its start in the bomb-building business), it was assumed, would balk at handing over such destructive technologies to just anybody. But if individuals, with or without an official nod, can organise the supplying, what is to stop other individuals doing the buying? And if money was the Pakistani scientists' main motive, Osama bin Laden has plenty of that.

What is to be done?

The anti-proliferation effort needs fixing. The best idea so far is the proliferation security initiative (PSI),

which now brings together a core group of like-minded countries in an attempt to plug the loopholes. It is already helping to interrupt North Korea's imports of nuclear technology, and the exports of missiles, drugs and counterfeit dollars that finance its nuclear habit. Another interception success helped nudge Libya into giving up its nuclear programme. But PSI will work best by persuading more countries that don't have them to pass and enforce proper export-control laws.

That is the least any responsible government would do, you might think. Yet Russia and China, both with bad proliferation pasts, have so far refused to team up in the PSI. Others might take more notice if the UN Security Council were to outlaw trafficking of materials and know-how for weapons of mass destruction to terrorist groups. But however many the rules, enforcement is crucial: as Pakistan shows, anti-proliferation efforts will only be as strong as their weakest link.

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Letters

Feb 5th 2004
From The Economist print edition

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Marching to war

SIR – I am disgusted by the lame excuses that you make about Iraq's weapons of mass destruction and the honest belief that they really existed ("Saddam Hussein's weapons mirage", January 31st). Before the war, Saddam Hussein agreed to allow inspectors back into Iraq. They could have uncovered or verified the lack of those weapons, given some time. Instead, George Bush and Tony Blair decided to go to war ignoring the inspectors, the UN and the vast majority of international opinion. So let's drop the charade and admit that this war was predetermined and not the result of bad intelligence.

Leonidas Kontothanassis
Boston

SIR – The intelligence community may be the main casualty of the Iraq war. To suggest that intelligence was deliberately misinterpreted or "hyped up" is to misunderstand its nature. Military intelligence is usually ambiguous and seldom incontrovertible. Moreover, intelligence services do not make policy. They act as consultants, and clients often ignore evidence which does not fit their preconceptions and accept that which does.

Regarding WMDs, the British and American governments used the "precautionary principle". It is not always possible to obtain incontrovertible evidence to justify a hypothesis. If observations are consistent, one should sometimes follow a hunch. Since September 11th, governments have become risk-averse. Facing a global terrorist threat, any that ignored a risk that turned out to be real would go down in history as grossly irresponsible.

Andrew Ryder
Portsmouth

Back to work

SIR – You give a factually incorrect and extremely misleading picture of how the government is tackling the problem of getting people on incapacity benefits back into work ("It's an ill wind", January 3rd). Our innovative "Pathways to Work" programme could prove to be an international trailblazer for helping people with health problems get back to work. This extra help, including financial incentives to return to work and health-service help with rehabilitation schemes, is currently being piloted and has been generally welcomed.

It is not our policy to prevent people on job seekers' allowance from moving on to incapacity benefit to cut the incapacity-benefit bill. But nine out of ten people who go on to incapacity benefit say that they want to work and we are determined to help them do so.

Most of the figures you quote are misleading and plain wrong. Rather than 5.9m "off sick", there are currently 2.8m people claiming incapacity benefits and around 300,000 people claiming statutory sick pay on any one day. Rather than "rising inexorably" since 1997 the entire incapacity-benefit caseload has grown by just over 5% and new claims have fallen by over 30% since 1995. That is in contrast to a nearly 300% increase in those on incapacity/invalidity benefit between 1979 and 1997.

Maria Eagle, MP

Work and pensions minister
London

Paying to learn

SIR – As nettlesome as the competition for rankings and resources among American colleges and universities can be, such competition, and a growing dependency on tuition revenues, energises both faculty and students ("Pay or decay", January 24th). Intense competition has led to an astonishing proliferation of Oxbridge-like tutorials, despite the cost, and a huge accretion of state-of-the-art facilities including laboratories and libraries. Although fees have increased at almost double the rate of inflation for the past quarter century, access has also increased significantly. Even as the government's role has diminished, the proportion of students from poor and disadvantaged families attending college has increased sharply. That increase is mainly a result of schools using their own resources—generated essentially through tuition payments—to assist poorer students.

The changes initiated in Britain will be wrenching at first but, in the end, ought to promote much greater access while enhancing the quality of higher education.

John Strassburger
President
Ursinus College
Collegeville, Pennsylvania

In praise of geeks

SIR – As dean of MIT's business school, I must point out that you display prejudice and insult many of your readers ("MBAs for anoraks", January 24th). It is no more true that all engineering and science graduates are "geeks", "techies" or "anoraks" and unsuited for business leadership, than that all humanities graduates are glib but innumerate lightweights, unsuited for any serious business role. In fact, a large proportion of business leaders around the world, particularly those in rapidly growing sectors, have degrees in science or engineering. Why insult them?

Richard Schmalensee
MIT Sloan School of Management
Cambridge, Massachusetts

Time is money

SIR – It may well be in the best interests of investors and managers to receive data in a timely manner ("Real-time reality", January 31st). However, when the financial-services firm in charge of auditing and preparing this information is billing its people on an hourly basis one has to consider the profitability of taking one's time.

Nick Ruszkowski
Dayton, Ohio

Development economics

SIR – A suggestion for renaming "emerging" economies ("What's in a name?", January 17th). Infant economies, for those countries that depend on other economies like a child on its parents. Teenager economies, like China and India, that are growing up fast, sometimes too fast, and need time to understand what is happening inside them. Mature economies, which would do well to pay attention to youthful, better-educated potential competitors.

Juan Ignacio Morales Ferrero
Barcelona

SIR – Perhaps this is an opportunity to employ the philosophical wisdom of Donald Rumsfeld. "Known knowns" would refer to the G7 and countries where we know we can get an internet connection and brush our teeth without using bottled water. "Known unknowns" would refer to countries like Russia, Argentina, Mexico, South Africa, Turkey and almost any Asian country—ie, countries we hear a great deal about, often through news of the apocalyptic or next-big-thing sort. "Unknown knowns" would refer to all

those little countries that if we just visited we would have a grand old time—eg, Palau, Mauritius, etc. “Unknown unknowns” would refer to those countries we don't know about and don't want to know about.

Michael Hsu
Washington, DC

SIR – Destitute (most of sub-Saharan Africa); deprived (speaks for itself); destroyed (Afghanistan, Iraq and some of west Africa); debutant (emerging or recently emerged, like Asia); decadent (“old” Europe); and depraved or despicable (America).

Jon Cook
Hanoi

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Integrating minorities

The war of the headscarves

Feb 5th 2004 | EVRY
From The Economist print edition

Getty

France and Britain have radically different approaches to ethnic and religious diversity. Each can learn from the other

BY THE grassy banks of the Seine, under a vast white marquee the size of a football pitch, 4,000 sheep are bleating. In the muddy field outside, a makeshift sign has been nailed to a wooden post: “Aid-el-Kebir”. This middling town south of Paris, home to some 15,000 Muslims (nearly a third of its population), is preparing for the Islamic festival of Eid.

The sheep-slaughter, which used to take place in living rooms, has been highly organised. Each family identifies and tags its own sheep. An official Muslim *sacrificateur* dispatches it, and each family then takes its animal home for the feast. In a country that is battling to protect the separation of religion and state, the entire event has been run by the town hall. “The French must understand that France is changing,” says a local official. “Islam has its place here now.”

Evry is particularly ethnically diverse. Some 40 different creeds, colours, faiths or tongues crowd into the town's rain-streaked tower-blocks. Croissants are on sale at the local *boulangerie*, mint tea and *foufou* at the *halal* butcher, and the “Afro-Coiffure” has skin-whitening cream and hair extensions on special offer. In the local paper, death announcements speak of “Pierre” and “Charles”; the births are of “Moussa” and “Fatih”. Half the town's housing is publicly owned, over three times the French average. Joblessness is high, particularly among young men. “It's not the Bronx,” suggests an official, but some estates “are a bit like a ghetto.”

While the French remain mesmerised by the proposed ban on the Muslim headscarf in state schools, other matters have preoccupied Evry. Last year, for instance, the mayor kicked up a fuss when the Muslim managers of a local Franprix supermarket stopped selling alcohol and pork. Local French shoppers, he argued, could not do without their *saucisson* and red wine. In vain: the supermarket is now another *halal* butcher.

In general, however, Evry wears multi-culturalism with confidence. It hosts evenings of Algerian poetry or Malian music. It is home to the biggest mosque in France. A multicultural team of youth workers—“Hamid, Bachir, Souleymane, Claire and Pétroline”—is on hand to get jobless young people back to work, with the help of “positive discrimination”. And ritual slaughter is now an official activity.

Evry illustrates clearly the issues troubling France in dealing with ethnic diversity. At root are difficult questions of identity, social mobility and religious expression. In particular, Islam is challenging the strict form of secularism, known as *laïcité*, which marks France out from most other western democracies. Under this doctrine, equality before the law of all citizens, regardless of their private beliefs, is supposed to be guaranteed by barring religion from the public arena. Even the “So help me God” intoned by incoming American presidents would be unthinkable in France.

A ban unveiled

Under the version of history which all French schools teach, the rigorously secular character of the state is a hard-won victory against the dark forces of obscurantism, anti-Semitism and authoritarian Catholicism which previously held sway. In theory, the involvement of Evry town hall in sheep-slaughter flies in the face of secularist principle. In practice, it shows increasing pragmatism and accommodation in ordinary French life.

At national level, however, debate has been reduced to a single issue: President Jacques Chirac's proposed ban on the wearing of the Islamic headscarf and other “conspicuous” religious symbols in state schools. Next week parliament will vote on the new law, which enjoys wide cross-party support. After that, further laws to protect secularism in public hospitals and public offices are expected.

Outside France the headscarf ban has caused bafflement and indignation, and not only in the Arab world. Yet French support for the ban remains strong (see chart), and unites unlikely bedfellows. Secularists join ranks with feminists, who are dismayed that daughters now choose to wear the veil their mothers battled to discard. Politically, the ban is seen as a way to take support from the far-right National Front.

Women undecided

Are you in favour of, or opposed to, a law banning signs or dress that conspicuously display religious affiliation?

	In favour, %	Opposed, %
All French	69	29
Left	66	33
Right	75	24
Muslims	42	53
Muslim women	49	43

Sources: CSA/Le Parisien; *Elle*

It is also regarded as a message to fundamentalist Islamists, whose certainties are seducing disaffected young French Muslims. The government stresses that its new law refers to all religions, but nobody is fooled. How many schoolchildren turn up to class wearing crucifixes of a “manifestly excessive dimension”? “It's not the crucifix or the *kippa* that is targeted,” insists Khalil Merroun, the rector of the Evry mosque, “but Islam.”

Many French people feel deeply uncomfortable about defiant, assertive Islam. France, after all, is home to Europe's biggest Muslim population (outside Turkey): some 5m, next to 3m in Germany and 1.5m in Britain. The country has about 1,600 mosques or prayer halls. Many young French Muslims find no difficulty in balancing private faith with French secularism. But an increasingly vocal minority, many of whom speak no Arabic and freely mix Nike trainers with the *hijab*, finds such compromise unacceptable.

This ban is widely seen as a test of what obligations modern France is willing to, or can, impose on its ethnically and ideologically diverse citizens. Either it can attempt a compromise, and allow Islam and other ethnic groups and religions a public voice, on condition that they at least pay lip-service to the secular republic. This, crudely, is the position of Nicolas Sarkozy, the outspoken interior minister, who has set up an official body, the French Council of the Muslim Faith, to that end. Or France can continue to try to defend its integrationist tradition and refuse compromise, as Mr Chirac is trying to do with the ban.

For those defending the existing model, the fear is that giving in to one demand will lead to many more. If, for religious reasons, women are allowed separate hours in municipal swimming pools, will the country end up separating whites and blacks? On this argument, there seems nothing to stop France sliding towards *communautarisme*, a dreaded state of affairs in which ethnic or religious groups could freely segregate themselves and form “states within a state” with their own rules and values. “I refuse to take France in that direction,” Mr Chirac said when announcing the ban. Not least because it leads, in French minds, to Britain's *laisser-faire* multiculturalism.

Meanwhile, in Finsbury Park

For French observers, the dire consequences of British sloppiness are clear to see in Finsbury Park, an

edgy area of north London. There, the local mosque is boarded up with corrugated iron. The storming of the mosque by armed police a year ago, the arrest of seven men suspected of terrorism and the deportation order for its former imam, Abu Hamza al-Masri, confirmed every French fear about Britain's multiculturalism. “I told you so,” was the reaction across the Channel.

Yet Mr Hamza's mosque was a very odd place, not least for its extremism. Far more typical of Islam in Britain is the nearby Muslim Welfare House, which has been overflowing ever since moderate local faithful got fed up with Mr Hamza's excesses. The centre supplies English-language and Arabic lessons, advice on job-seeking, and youth and homework clubs, as well as holding weekly prayers—all with the help of an annual grant from the British government. It not only serves traditional populations of Pakistanis and Bangladeshis, but newer groups of Algerians and Albanians too. In France, this might be regarded as state-sponsored ethnic segregation. At the Muslim Welfare House they consider it integration. “We do the grass-roots job the government can't,” comments an official.

The British model of integration consists, essentially, of not worrying about it. Where the French have an official High Council for Integration, designed to ensure that the process takes place, the British shy away from the term. Ethnic minority groups are not only left alone by the state to practise their faith, language or culture, but are encouraged and subsidised to do so. In one or two schools, the wearing of headscarves has caused trouble; but this is seen as a problem for school governors, not politicians. A vast majority disapproves of headscarf bans for impeccably liberal reasons.

Britain does not use quotas or American-style affirmative-action programmes to enforce multiculturalism. It relies, in part, on the routine acceptance of it, and also on strong laws against discrimination. The onus is now on employers to prove that they have not discriminated, rather than on employees to show that they have been treated unfairly. Fired by a self-interested desire to protect reputation, private companies scramble to adopt “diversity” programmes as a mark of good citizenship. France has none of this. In secularist French theory, the principle of rigorous, colour-blind equality before the law should remove the need for “positive discrimination”.

The British and French models for dealing with diversity have deep roots in history. The French model stems not only from secularism but from the country's revolutionary ideal, which enshrines the equal rights and obligations of citizens as individuals. The model in Britain, which is an assembly of nations, has always allowed a more pragmatic, looser connection to the centre. Moreover, Commonwealth citizens arrived in Britain with the right to vote. Geographical concentration propped up that voting power. So bargaining rights—over the building of mosques, the introduction of *halal* food in schools, or railway-station signs in Urdu—were won more easily.

These differences acknowledged, is British multiculturalism as wrong-headed as the French suggest? The British model has at least ensured the visibility of ethnic Britons in public life, such as TV news-reading. French television news, by contrast, is almost lily-white. France may celebrate its multi-ethnic national football team; Zinedine Zidane was voted the most admired Frenchman last year. But such exceptions, mostly in arts or sports, stand out. France's emphasis on integration would be more compelling if more of its minorities had become public figures.

In terms of political representation, Britain scores better. At the latest count, there were 12 ethnic-minority members of Parliament and 24 such members of the House of Lords. The French National Assembly contains no Muslims, and the black faces are those from French overseas constituencies. Even the French Socialist Party, with its links to anti-racism movements, has no black deputies.

But surely the British model leads to more isolation and segregation? Britain has highly concentrated minorities. Two entire London boroughs, Brent and Newham, now have a non-white majority. In some primary schools, white faces are non-existent. Yet the French model has not averted segregation. It is hard to measure, because minorities are not monitored. But on certain estates, like those in Evry, white faces are also rare.

Tracking the extremists

Racial tension is harder to judge. Britain was marked by riots in the northern cities of Oldham, Burnley and Bradford in 2001. An official report blamed in part the “parallel lives” and “separation of communities” in the towns. London, however, where a third of the population is now from an ethnic minority, is visibly multi-racial, and the capital has not seen a big race riot for many years.

France, to its credit, has also averted mass race riots. Racial tension, however, shows up in other ways. The far-right National Front, which grabbed second place in the first round of the presidential election in 2002, is expected to do well again in regional elections in March. It campaigns heavily on an anti-immigrant platform. In addition, anti-Semitic attacks in France continue, widely blamed on the influence of Islamic extremism and anti-Zionism.

And what of religious fanaticism? It may be easier to plot, preach and disappear in London than in Paris. Yet intelligence sources suggest that the two countries have comparable, though different, levels of activity. Only last month, six people, including an imam, were arrested in Vénissieux, a suburb of Lyons, on suspicion of terrorism. France acts as an important “supply base” for finance and recruitment to the terrorist front, many of whose members move on to London and thence to Pakistan, Afghanistan and elsewhere. The more the traditional mosques in France are watched, the more the networks disappear into clandestine prayer halls and corner shops. In short, a tradition of integration has not sheltered France from extremism.

Where does all this leave the balance sheet? Crudely, the British model seems to produce more social mobility, though perhaps at the price of greater extremist activity and complacency about its entrenched ghettos. The French model may give less space to radicalism, but fails to promote social mobility, and is no guard against ghettos forming. Evry's mayor puts it well when he comments that France is accumulating the disadvantages of British multiculturalism without the advantages.

The difficulty lies in deciding what to do about it. Current policy carries risks. The headscarf ban, designed to strengthen French secularism, could end up threatening it: the ban plays into the hands of Islamist groups, who claim that Islam is being stigmatised. At the same time, Mr Sarkozy's new Muslim council brings its own dangers. The more Muslim leaders once considered extremist co-operate with the government, the more young jobless Muslims could turn to other voices outside the council, such as those behind the recent march against the ban in Paris. Tariq Ramadan, for instance, the Swiss grandson of the founder of the Islamist Muslim Brotherhood, is fast becoming a hero on run-down French housing estates.

Some are beginning to advocate a more radical rethink of the current French model. There are stirrings, for instance, of a public debate on “positive discrimination”, despite Mr Chirac's declaration that such thinking is “unacceptable”. If waiting for individual merit to rise to the top is not working, argues Mr Sarkozy, then some sort of hand-up should be considered. The idea of favouring groups, though, makes the French tie themselves in knots. How do you discriminate in favour of a group when the country doesn't recognise any, and all are equal before the law?

Quietly, practical ways are being found around the theoretical objections. Sciences-Po, a respected college in Paris, lets schoolchildren living in certain “educational priority zones” skip the fiercely competitive entrance exam. Most happen to be non-white. “It's illegitimate to hide behind republican principles and do nothing,” argues Richard Descoings, the college's head. Towns like Evry are finding ways to support Muslim activities and skirt the official ban on state finance and religion. Indeed, Evry's mayor argues that France should explicitly help to finance legitimate mosques, in order to avoid the radicalism that comes in from the Gulf and North Africa. Some 90% of France's 900 or so official and self-proclaimed imams are foreign-trained and sponsored.

Perhaps the most devastating criticism of the rigidity of current French policy was delivered in a recent report from the Institut Montaigne, a think-tank. It talked of France's “rampant ethnic segregation” and “veritable ghettos”. The country, it said, “scarcely recognises itself as a pluri-ethnic nation”. It urged France to “recognise the reality of minorities”, and, most important, to put in place a programme designed to reflect ethnic “diversity”, including positive discrimination.

That common glue

The British, too, are beginning to recognise the drawbacks of their own approach. David Blunkett, the home secretary, is introducing citizenship classes to ensure that Britons can at least speak English and know a little of their history—not hitherto much of a concern. Quite sensibly, there is more talk of the need to strengthen common glue so that differences can continue to flourish. Trevor Phillips, the black head of the Commission for Racial Equality, says he wants to rehabilitate the term “integration”. “People think we tolerate any old nonsense because it's part of their culture: that's nonsense,” he says. “To make the idea of a British Muslim a reality means paying as much attention to “British” as to “Muslim”.

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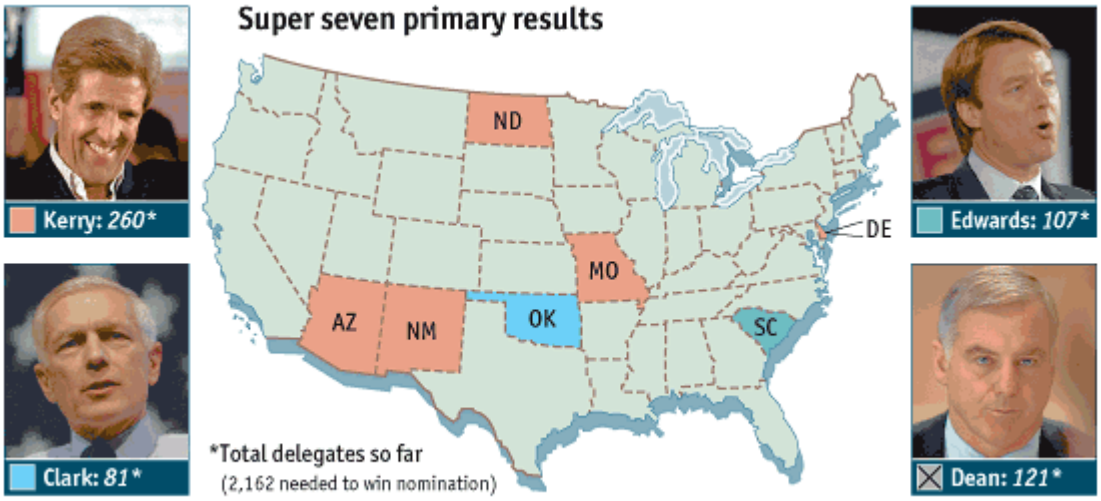
This week's primaries

John Kerry's race to lose

Feb 5th 2004 | COLUMBIA, SOUTH CAROLINA, AND KANSAS CITY, MISSOURI
From The Economist print edition

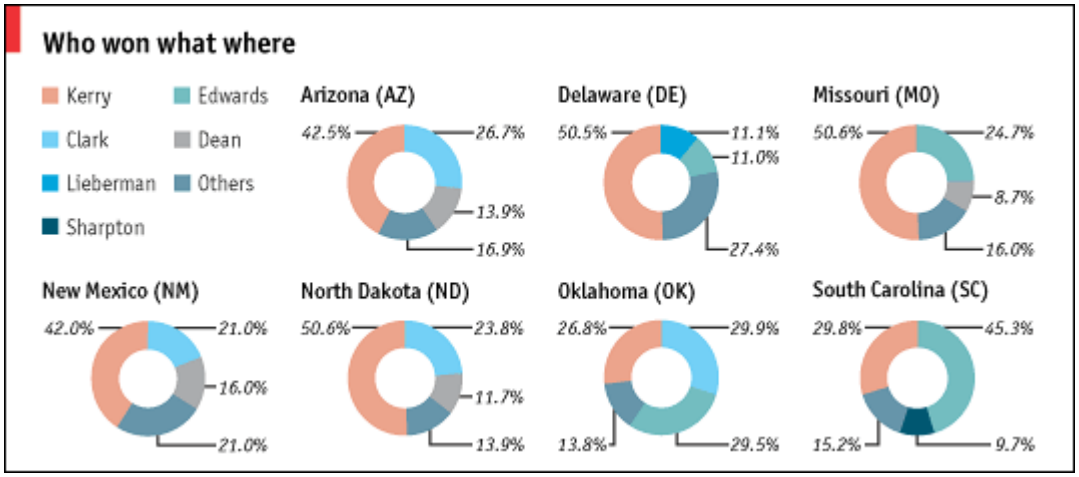


Source: Associated Press, February 4th 2004

The Democratic contest may be coming down to a two-horse race—John Kerry versus John Edwards. It may not happen fast enough to stop Mr Kerry

BY ALL but the most demanding yardstick, John Kerry had an excellent time on the first nationwide day of primary polling for the Democratic Party's presidential nomination. He won five contests in three time zones. The two exceptions—South Carolina and Oklahoma—are states that Democrats are not going to win in November anyway.

Five of the primary contests so far have taken place in states that were closely fought in 2000, where the Democratic candidate must do well if he is to unseat George Bush in November—and the Massachusetts liberal has beaten his rivals by wide margins in all of them. They are Missouri, the largest state to decide this week (Mr Kerry won 51%), Arizona (43%) and New Mexico (42%), as well as Iowa (38%) and New Hampshire (39%).



Mr Kerry is now in a strong position to take the nomination unless he makes some disastrous mistake, or

unless one of his rivals can change the dynamic of the race. He has made no mistakes on the campaign since he gambled everything on winning Iowa at the end of last year. And his rivals may find it hard to shake him.

Mr Kerry is becoming a formidable campaigner. This week's primaries showed him expanding his base beyond veterans, union households and sandal-wearing liberals into other Democratic constituencies which could matter more in the general election.

The race in Arizona provided the first test of sentiment among Latinos—and Mr Kerry won 42% of them, easily the highest among the candidates. Missouri provided the first test of opinion among metropolitan blacks (blacks accounted for a larger share of the electorate in South Carolina, but they were mostly small-town or rural voters; Missouri's African-Americans are concentrated in St Louis and Kansas City). Mr Kerry won 53% of that state's blacks. He is the only one in the field to have campaigned in every state and is emerging as the sole national candidate.

His trump card has been “electability”—and on this score, the results from the February 3rd primaries were stunning. Among voters who said the most important consideration was the ability to beat George Bush, Mr Kerry won by landslides: three-to-one against his nearest rivals in Missouri and Arizona and seven-to-one in Delaware. In all but two of the states where the data are available, “electability” was the main factor in voters' minds. Intriguingly, the exceptions were South Carolina and Oklahoma, which Mr Kerry lost.

Electability is a will-o'-the-wisp idea. Voters are choosing a candidate not because they like him, but because they think other people do. And that raises doubts about how solid Mr Kerry's support is.

At the moment, everything is conspiring to give him momentum. Mr Bush, for example, is going through a dismal period, which started with a feeble state-of-the-union address and is continuing with the embarrassing admission that there were no weapons of mass destruction in Iraq. In a recent Gallup poll, his overall approval was just 49% (the first time in his presidency he has dipped below 50%)—and his disapproval rating was 48%. On specific issues (Iraq, the economy, health care) disapprovals outweigh approvals.

That starts a virtuous cycle for Mr Kerry. Mr Bush looks weak. Hypothetical match-ups show Mr Kerry beating him (by 53% to 46%, says Gallup). That enhances Mr Kerry's “electability” and gives him more primary victories.

Next, Mr Kerry is benefiting from the implosion of Howard Dean. A month ago, Mr Dean had $40m and seemed the only national candidate. Now he has blown most of his money and opted for an extraordinary strategy: forget about February 3rd (when he won less than 20% of the vote in every state) and concentrate on contests in Maine on the 8th and Wisconsin on the 17th. The theory appears to be that by winning one of these (Wisconsin has a long populist tradition) he will get back into the race. But by then, Mr Kerry could have wrapped the nomination up. And before then, Mr Dean's union supporters—sources of money and organisation—may have pulled the plug. The Dean campaign is turning into one of the great disappearing acts of political history—and Mr Kerry has been its main beneficiary.

Lastly, Mr Kerry has been helped by the kid-glove treatment he has got from rivals. Remarkably, since he won the Iowa caucuses, no one other than Mr Dean has tried to attack his record as a way of interrupting the rush to nominate him. There are special reasons for this. Both John Edwards and (to a lesser extent) Wesley Clark are portraying themselves as upbeat “positive” candidates who eschew “negativity”. Needing victories this week to stay in the race, both were afraid to risk their good-guy image by turning on Mr Kerry.

As the field thins out and Mr Kerry's position strengthens, will the others decide they have nothing to lose by going negative? This week, Joe Lieberman became the third candidate to retire. Among the remainder, the most plausible Kerry alternative looks like Mr Edwards (see article).

Mr Edwards, who won his native South Carolina convincingly and came within a whisker of taking Oklahoma, can now argue he is the man best able to win moderate votes all over America. As Ruy Teixeira, a Democratic analyst, points out, Mr Edwards did better among independents than Mr Kerry. In Missouri, Mr Kerry won 56% of those who described themselves as Democrats but only 37% of independents. Mr Edwards's share of independents was five points higher than his share of Democrats. It was the same story in the other closely fought states of Arizona, Oklahoma and South Carolina. Mr Edwards did better than Mr Kerry among voters who said the economy was the most important issue, or

who said they wanted a candidate “who cared about people like me”.

The timetable also provides an opportunity for Mr Edwards. There are relatively few contests between now and March 2nd, when a third of all delegates come up for grabs and the nomination could be settled. Two are in the Edwards-friendly south (Virginia and Tennessee).

The trouble is that General Clark did just well enough to stay in the race. He squeaked through in Oklahoma and came second in Arizona, New Mexico and North Dakota. Like Mr Edwards, he is a southerner. Unlike Mr Edwards, he really is a political neophyte and can undercut his rival's claim to be the outsider against Mr Kerry. He may stay in long enough to split the south with Mr Edwards.

So the race is becoming clearer. Mr Kerry is charging down the field, pennants flying. There are chinks in his armour that Mr Edwards seems best placed to exploit. The question is whether he can free himself of General Clark's challenge quickly enough to mount one of his own against Mr Kerry.

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Next stop, Michigan

Brother, where art thou?

Feb 5th 2004 | CHICAGO
From The Economist print edition

A contest that reflects the declining clout of the unions

AS AL GORE learned the hard way, political endorsements can be painful. No sooner had Mr Gore endorsed Howard Dean than the latter's prospects crumbled. Less noticed has been the setback for trade unions: they pledged their troth to Mr Dean and to Dick Gephardt, who dropped out after Iowa. Now they seem in something of a funk in Michigan, where caucuses take place on February 7th.

One in five of the state's workers belongs to a union. But as *The Economist* went to press, neither the state branch of the AFL-CIO nor that of the once all-powerful United Auto Workers had endorsed a candidate. Meanwhile, the Teamsters have failed to update their endorsement of Mr Gephardt, the only candidate to have spent time or money in the state. Mr Dean still has the support of some white-collar and government unions.

Most union barons will probably eventually plump for John Kerry, the national front-runner. He already has the Michigan firefighters and the teachers. But it all seems a little perfunctory.

As Ed Sarpolus, a pollster, points out, the unions' record in Michigan presidential politics is pretty awful. In 1988, they endorsed Michael Dukakis, but Jesse Jackson won the state; in 1992, they picked Jerry Brown, only for Bill Clinton to win. They picked Mr Gore in 2000, but in the 2002 gubernatorial primary they plumped for David Bonior, a popular congressman, who was duly clobbered in the primary by the current governor, Jennifer Granholm (who is backing Mr Kerry).

This reflects problems for the unions at a national level. The national AFL-CIO, with 13m members, has not endorsed anybody. Neither has the National Education Association, the main teachers' group, though it ruled out Joe Lieberman for daring to flirt with school vouchers.

Around half America's union members live in only six states: Michigan, Illinois, Ohio, California, New York and Pennsylvania. But even in Michigan, the unions seem in retreat. The UAW has lost almost 1m manufacturing jobs in the past two decades. Unions have picked up recruits in services, but they tend to be less responsive to declarations of class-warfare or protectionist pitches: “you can't ship a hotel janitor's job overseas”, says Arthur Sanders, a politics professor at Drake University in Iowa. As for the teachers, they seem more concerned about federal funding for education than the minimum wage.

To complete the travails of the Michigan unionists, it is by no means certain that their members will vote Democrat. In 2000, national figures showed union households choosing Mr Gore over Mr Bush by a 59% to 37% margin. But many blue-collar workers tend to be conservative on social issues, such as gay marriage. The Michigan Education Association says only 35% of its members are Democrats.

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Now it's ricin

Feb 5th 2004
From The Economist print edition

JUST over two years ago a spate of anthrax-laced letters resulted in the closure of Capitol Hill, the paralysis of the Post Office and the deaths of five people. This week the men in gas masks returned to the Senate's august corridors. On February 2nd a suspicious powder—this time ricin—was found in a Capitol Hill mailroom near the office of the Senate majority leader, Bill Frist. And there are reports that a ricin-laced letter was sent to the White House in November.After the anthrax attack, the FBI interviewed 5,000 people and took the bizarre step of naming Steven Hatfill, a government scientist, as a “person of interest” in the case without actually accusing him of anything. Al-Qaeda has had a long interest in ricin, a low-tech poison that can be made from the processing-waste of castor beans. If injected it is lethal: Bulgarian agents supposedly killed a dissident, Georgi Markov, in London by jabbing him with an umbrella in 1978. But the poison is much harder to disperse in the air than anthrax.

AFP

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Western politics

Can this really be Kerryland?

Feb 5th 2004 | PHOENIX
From The Economist print edition

The improving chances for the front-runner and his party in the west

“BRING it on,” they kept chanting in the grandly named Mountain Preserve Reception and Conference Centre, “bring it on!” And while the John Kerry victory slogan is becoming like one of those incessant advertising jingles, it seems to be chiming in the west. This week, Mr Kerry swept to a comfortable victory in both Arizona and New Mexico. His aides talk confidently about more successes in other western primaries, including California.

Has a Yankee senator really found an audience in the west? The answer matters not just to Mr Kerry but to his party, which, especially in the light of its lack of progress in the South, is re-examining a region where it has had limited success in presidential politics (at least outside California—and even that redoubt has now been Schwarzeneggered).

The best ground for optimism is that the aristocratic senator from Massachusetts has now proved his appeal reaches Latinos. In Arizona, where the Hispanic population is now a quarter of the total, exit polls reckon that a fifth of the voters in the primary were Latino, and 42% of them chose Mr Kerry. In New Mexico, where 42% of residents are Latinos, Democrats claim they provided 60% of the voters and most of them chose Mr Kerry. Already his people are extrapolating similar success in California, where a third of the population identifies itself as Hispanic.

Such arithmetic may, of course, turn out to be a mite too pat. But in a presidential contest in November that both parties insist will be a close-run thing, winning the votes of Latinos—who at 37.4m people comprise the nation's fastest growing group—could be crucial, particularly if they can be persuaded to go the polls. In Arizona, Latinos boast that their turnout in the 2000 presidential election was 37% higher than in 1996.

Mr Kerry's supporters maintain that one of his biggest selling points to Latinos was his exemplary war record (something George Bush does not share). Mario Diaz, who directed the Kerry campaign in Arizona, says he was first drawn to the senator because of his work for Vietnam veterans (plus pressure from Mrs Diaz, who works with veterans). Joe Delgado, a campaign volunteer whose ancestry apparently runs from Irish to American Indian, says: “What humbled John was going to Vietnam. People are now seeing he's the real deal.”

Arizonans of all races may be disproportionately predisposed towards personal valour. Nearly one in five of the state's 5.5m residents are veterans—something that helped General Wesley Clark, who came second in Tuesday's primary.

This part of the south-west will be extremely hard-fought come November. Arizona is still tilted Mr Bush's way: he won here in 2000 (albeit by 100,000 votes) and it has two Republican senators. But its Democratic governor, Janet Napolitano, insists it is wide open. In New Mexico, each party claims one senator, but Al Gore squeaked home in 2000 by a mere 365 votes and there is a Democratic governor—Bill Richardson, a Latino and a possible running mate for Mr Kerry.

Mr Bush is also targeting Latino votes. He surely had Arizona and New Mexico in mind when he talked about setting up a guest-worker system for illegal immigrants. And opinion polls reveal that they share many of the family and overtly-Christian values underlined by the Republicans. As George Garcia, a 27-year-old Mexican-born American, explained on Tuesday while waiting for his order in a Phoenix fast-food restaurant: “I'll probably vote for Bush, because of what he says on morality.”

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The electoral week

Primary colour

Feb 5th 2004
From The Economist print edition

Just say no

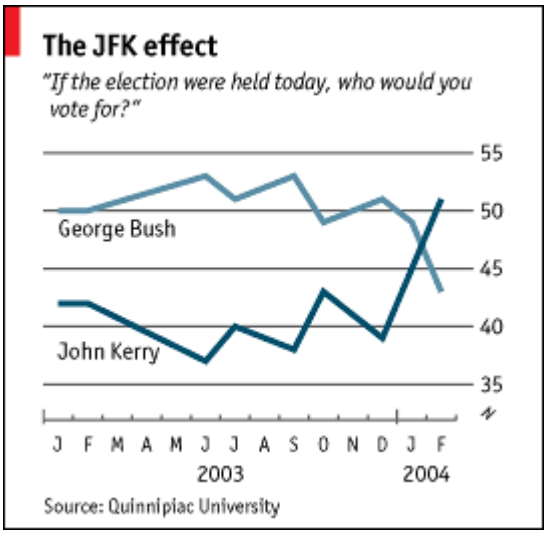
“A candidate of no principle.”

Howard Dean on John Kerry attacking special interests while taking their donations, Boston Globe*, February 2nd*

The real story of the week (I)

“How about those New England Patriots? It's great to see New Englanders go to Texas and win! It sets a great precedent.”

John Kerry reflects on the Superbowl, February 2nd



The real story (II)

“I'm probably affected...by the fact that I'm a doctor, so it's not exactly an unusual phenomenon for me.”

Howard Dean on Janet Jackson's breast, New York Times*, February 3rd*

The real story (III)

“I don't want to admit it, but because this White House starts early, I missed it—again. Saw the first half, did not see the half time—I was preparing for the day and fell asleep. But you all can tell me about it.”

George Bush on the same, February 2nd

Good times

“I'm Al Gore, I used to be the next president of the United States.”

The former VP campaigning for Howard Dean, Associated Press, February 2nd

Miaow

“It's a family that rivals the Carringtons for glamorous skeletons, the Fishers for melancholy and the Sopranos for operatic temper. The Kerry family...is a dysfunctional group deliciously ready for prime time.”

Rebecca Traister, Salon*, February 3rd*

To botox or not to botox

“There's nothing like coming from behind and winning two very important presidential primaries to make somebody look better.”

John Kerry's spokesman on rumours of botox injections, New York Daily News*, January 29th*

Joe, we hardly knew ya

“It was unbelievable.”

Joe Lieberman, now out of the race, empathising with a water-skiing squirrel in Oklahoma, February 2nd

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The new WMD commission

Widespread misperception

Feb 5th 2004 | WASHINGTON, DC
From The Economist print edition

The commission is likely to embarrass the spies and, perhaps, Dick Cheney

"IF YOUR intelligence is wrong, you're in a world of trouble," said Pat Roberts, the Republican head of the Senate intelligence committee, this week. America's intelligence on Iraq was indeed "almost all wrong" as David Kay, the former head of America's Iraq Survey Group, told the Senate last week. And almost everyone is in trouble.

The new commission brings to seven the number of panels in America investigating pre-war claims about Iraq. The others include the intelligence committees of both House and Senate and the CIA's team, while Mr Bush's announcement also made inevitable the establishment of a similar panel in Britain (see article).

Although a lot depends on whom Mr Bush puts on the commission, it looks distinctive in two ways. First, it is not an integral part of the machinery of government, so it could be somewhat more impartial. Second, it will have a wider remit than just Iraq: it will also look into the spooks' performance in tracking the proliferation of WMD in Iran, North Korea and Libya.

But Iraq will prove most controversial. The spies' consensus view of Saddam Hussein's capabilities was published in an official "national intelligence estimate" (NIE) in October 2002. Set alongside Mr Kay's testimony, and the early findings of the House and Senate intelligence committees, it makes for embarrassing reading.

•"Saddam probably has stocked at least 100 metric tons and possibly 500 metric tons of [chemical weapons] agents—much of it added in the last year," the NIE said. Mr Kay told Congress that Iraq's large-scale chemical weapons programme had been all but wound up in 1998 and its stockpiles destroyed in 1995.

•On biological weapons, the NIE said "we judge all key aspects...are active and most elements are larger and more advanced than they were before the Gulf war." Mr Kay, in contrast, now says that Iraq had begun to destroy its biological weapons in 1995 and had no stocks left.

•The NIE said that "if Baghdad acquires sufficient fissile material from abroad, it could make a nuclear weapon within several months to a year. Without such material from abroad, Iraq probably would not be able to make a weapon until 2007 to 2009." Mr Kay now says there was no sign Saddam took any real steps to build a nuke after 1998, even if he remained committed to getting one.

Porter Goss, the chairman of the House intelligence committee, this week suggested that the main problem was a failure of fact-gathering, rather than analysis. America had few spies inside Iraq during the final years of Saddam's regime, and intelligence was undermined further by the ejection of UN weapons inspectors in 1998, who had provided on-the-spot reality checks for charges of nefarious activity.

This shortcoming was confirmed on February 5th, by George Tenet, the CIA's boss and the butt of Republican criticism. He also admitted, by implication at least, that his analysts had overestimated Saddam's nuclear progress. But for the most part he defended his spies fiercely, praising their work on Iraq's missile programmes, dismissing Mr Kay's idea that the survey group's work was 85% done, and denying that the CIA had deemed Saddam an imminent threat.

Even if the big failure was the intelligence community's, was the administration also guilty of "manipulation of the intelligence to justify a decision to go to war"—as Ted Kennedy puts it? Some circumstantial material supports the charge. Dick Cheney made repeated visits to the CIA; there was an

unusual number of dissenting views in the NIE; the Pentagon set up its own intelligence shop. But most of these can be explained away as over-rigorous supervision of the spies.

Both Mr Kay and Mr Tenet dispute assertions that intelligence was slanted. The material provided to Mr Bush was similar to that supplied to Bill Clinton. Similarly, all the main spy services of America's allies—Britain, France, Germany and others—thought Saddam had WMD.

One of the few organisations to get Saddam's arsenal even a quarter right were the State Department's intelligence analysts, who disputed some claims about Iraq's nuclear plans. But they said the same thing in 1991, when his plans were further advanced, so nobody believed them. It was “a world intelligence failure” as Senator Roberts puts it.

If the administration did not put pressure on spies before they delivered their appraisal, did it perhaps “sex up” the conclusions afterwards to sharpen its case? Here the vice-president looks the most likely transgressor. For instance, Mr Cheney said Saddam could get a nuke “within a few months to a year. That is the judgment of the intelligence community and they had a high degree of confidence in it.” This ignored both the spies' view that Iraq would need at least five years to build a bomb unless it could get fissile material from someone else and the NIE's “low confidence in our ability to assess when Saddam would use WMD.”

So far, the administration has insisted on the basic rightness of its decision to overthrow Saddam. The world is better off, says Mr Bush, without the Iraqi dictator, who brought his downfall on himself by refusing to disclose the whole truth about his weapons to the UN. Half of all Americans say that they would support the war even if no WMD were found. But Colin Powell has now admitted that he might not have recommended an invasion had he known beforehand that Iraq had no WMD. And John Kerry and John Edwards, who both voted for the war, can now claim Mr Bush got things wrong in the run-up to the war, as well as in the reconstruction afterwards.

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George Bush's budget

An election-year farce

Feb 5th 2004 | WASHINGTON, DC
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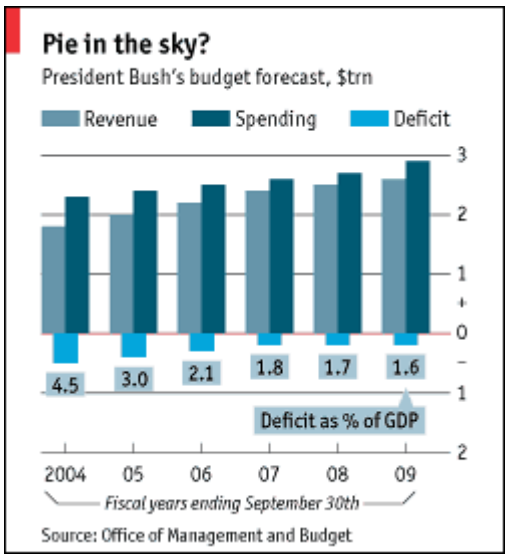
Nice glossy brochure, not much fiscal responsibility

Get article background

ELEVEN days after Congress at last approved a budget for the current fiscal year, which began in October, George Bush presented Congress with a $2.4 trillion budget for the next. Think of it as a campaign brochure, complete with glossy pictures of the president bringing relief to the elderly, restoring the environment and exhorting the young. As a way to unveil the three main themes of Mr Bush's re-election strategy—fighting the war on terror, protecting the "homeland" and getting the credit for a recovering economy—the brochure is a tour de force. As an exercise in fiscal responsibility, it is a charade.

For the armed forces and homeland defence come big proposed increases in spending, up by 7% and 10% respectively. Nothing short of "transformation" is proposed in order to win the war on terror. A Republican Congress is unlikely to begrudge Mr Bush the money.

A bigger problem are those puckerish conservatives who believe that almost any domestic spending by the federal government is wickedness incarnate. This group complains that, since he came to office, Mr Bush has betrayed the vision of Ronald Reagan with a "big-government conservatism" that has increased spending wildly.



In this budget, the president makes his peace with this pinched lot. He proposes that total discretionary spending increases by only 3.9%—less than the rise in average household income. To achieve that, he plans to restrict any increase in discretionary spending not related to homeland security or defence to just 0.5%. Money will be cut for school drop-outs, illiterate prisoners and so on: 65 "major" programmes in all are to be cut, a welcome assault for conservatives on the parasites (Democrats, if they vote at all) on the state. On the other hand, money will be raised for wholesome programmes like one supporting "healthy marriages". And best of all, as far as the puckerers are concerned, his temporary tax cuts are to be made permanent.

And there is more. While many of the Reagan flame-keepers agree with Dick Cheney that "deficits don't matter", other Republicans have become increasingly unsettled by a budget deficit now forecast at $520 billion this fiscal year, or over 4.5% of GDP. To this camp, the president promises that spending restraint, by reimposing long-term budget caps, combined with higher revenues from faster economic growth will halve the deficit by 2009. By then, the deficit will be back below its long-run average, as a proportion of GDP.

If this all looks too good to be true, it is. For once, the administration has not fiddled the books by relying on unrealistically high growth rates in the coming years; but it has relied on other fibs. For a start, the budget does not factor in the future costs of keeping soldiers in Iraq and Afghanistan: even Mr Bush's own budget director says costs could be as much as $50 billion for Iraq alone in 2005. Then the usual implausible savings are found from "waste, fraud and abuse". Third, all the president's cuts are to fall on the one-fifth of the total budget that counts as domestic discretionary spending—hardly likely to happen in an election year.

Mr Bush's most culpable failing lies in his refusal to think beyond the 2009 horizon. Take, first, the tax cuts of 2001 and 2003, which Mr Bush wants to make permanent at a ten-year cost, when other new proposals for tax-free savings schemes are added in, of $1.25 trillion. The cuts may well have provided a welcome economic stimulus at a time when confidence was knocked by recession and terrorist attack. But after 2009, these cuts will equal three-quarters of the total deficit, even by the administration's own numbers.

This matters, because soon after that date, some very predictable things happen, thanks to a demographic bulge as the baby-boom generation reaches retirement. The surplus on government-retirement accounts, which currently subsidises federal spending by over $250 billion a year, will vanish. The costs of Medicare, the health programme for the elderly, will soar. Mr Bush has aggravated the problem by pushing through a Medicare prescriptions law whose ten-year cost has now jumped to $530 billion. The idea that Mr Bush will ever tackle these issues—even in a second term—looks fanciful.

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Labour laws

An Amish exception

Feb 5th 2004 | LANCASTER, PENNSYLVANIA
From The Economist print edition

Children can work—and a good thing, too

AT THE Lapp Furniture and Toy Store in Lancaster, Pennsylvania, a pretty teenage girl in a long skirt counts out a customer's change. As in many Amish shops in the town, the girl operates the till while, in a back room, an adult craftsman works with a sawing machine.

The scene is an exception to America's child-labour laws which forbid children below the age of 18 from working in wood workshops or, indeed, in any other place containing dangerous machinery. Yet the Amish, a religious sect that still clings to 19th-century norms, start work young. They attend one- and two-room private schools until they are 14 or 15, and then take an apprenticeship. In 1972, the Supreme Court ruled that they could do this. An apprenticeship—either learning to farm or doing the books in woodworking shops—is their chance to learn a trade.

Everything was fine as long as “child labour” meant working on the farm. (Amish farm machinery, mostly horses and hand-tools, poses few problems.) But in recent years, according to Donald Kraybill, a professor at the Young Centre for Anabaptist and Pietist Studies, land prices have soared so high—to $1m an acre round Lancaster—that families have left their farms. Instead, most Amish now run workshops making everything wooden, from gazebos to toys. But these have dangerous machines, which put them in conflict with federal law.

In the past decade, Department of Labour officials have been fining shop-owners around $15,000 for hiring under-age teenagers. Businesses have also been threatened with closure. All this seemed daft to Joe Pitts, the congressman for south-east Pennsylvania, who devised a bill to grant the Amish an exemption. Child-labour laws, his spokesman argues, were created to prevent children labouring in coal mines. “Now we have 14-year-old boys sweeping the floor in their uncle's stores, but the owner is being fined $20,000. That's crazy.”

On January 23rd, President George Bush signed Mr Pitts's bill into law. In future, any sect whose established teachings forbid education after the eighth grade may put its children into wood workshops. They may not operate machines; they have to wear protective clothing, and adults must be there to supervise. But otherwise they are free.

A few Amish are worried. John Smith, who left the community 12 years ago, injured his back at work when he was 16. He points out that some primitive mills own saws without protective covering. And he frets, too, that the team spirit that animates the Amish makes youngsters over-exert themselves. But his is a lonely voice. As all Amish know, if boys are not working they will just be out on the street, up to no good.

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Lexington

The natural

Feb 5th 2004
From The Economist print edition

The case for prolonging the race to take a longer look at John Edwards

NOBODY bottles hope better than America's black churches. On February 1st John Edwards joined 2,500 black worshippers at the Bibleway Baptist Church near Columbia, South Carolina, to celebrate America's potential. Signs declared that this is “a year of possibilities”. Sister Naomi got them dancing in the aisles with a spirited rendition of “Lord, you brought me a mighty long way.” Pastor Darrell Jackson sermonised that “better days are coming by and by”, as presumably he always does.

Two days later Mr Edwards, a local boy made good, unbottled some of this optimism by handily winning the South Carolina primary. Mr Edwards would like to have added Oklahoma to his catch (Wesley Clark pipped him at the post by a mere 1,500 votes). But he has clearly established himself as the only viable alternative to the junior senator from Massachusetts. With John Kerry on a roll, but 90% of the delegates still up for grabs, should the Democratic Party use this final opportunity to take one last look at the South Carolinian?

There is no doubt that Mr Kerry has a more presidential curriculum vitae than Mr Edwards. He fought heroically in Vietnam, a trump card in an age of war and terrorism. He has served on the Senate Foreign Relations Committee for 19 years. Mr Edwards, by contrast, has been in the Senate for only five years, and is decidedly light on foreign-policy experience. But voters do not elect a curriculum vitae. They elect a man. And as a man Mr Edwards is arguably a better candidate than Mr Kerry: better at tapping into core Democratic values; better at connecting with ordinary people; and better at making the case for change.

The Democratic Party is in a decidedly populist mood at the moment. The party's rank and file are convinced that the middle-class society that was built by FDR is being rent asunder. Big corporations are exporting jobs while stuffing their bosses with gold. The government is in the hands of lobbyists and special interests. And America's ladders of opportunity are falling down.

Every Democrat is making this case. But Mr Edwards makes it much more stylishly than Mr Kerry. This is partly a matter of biography. Who better to tell the story of America's growing class-divide than a boy who was born in a small town in America's segregated South? Whose father worked in a mill for 36 years? And who worked his way through college and law school? Mr Kerry is cut from exactly the same cloth as George Bush, down to their mutual membership of a ritzy Yale secret society; Mr Edwards is a standing indictment of Mr Bush's privileged background and nepotistic career.

But it is also a matter of sheer talent. Joe Klein wrote a hymn to Bill Clinton's political talents entitled “The Natural”. Mr Edwards conspicuously lacks Mr Clinton's range of wonkery, but he is much better at connecting with the electorate than the stiff and patrician Mr Kerry. His victory speech in Columbia on Tuesday night was a masterpiece. He didn't rattle off a long list of local worthies who had helped him. He didn't talk tactics. He didn't mention Mr Kerry. Instead he focused on the 35m Americans who live in poverty. Mr Kerry is improving on the stump, but he is still a terrible bore when compared with Mr Edwards.

Mr Edwards's autobiography also allows him to link populism to another great American tradition: the optimism that was so much on display in the Bibleway Baptist Church. Populism divorced from optimism can seem merely angry (like Howard Dean) or even hypocritical. For instance, the *Washington Post* has revealed that Mr Kerry has raised more money from paid lobbyists than any other senator over the past 15 years. A glance at his record also shows that he has repeatedly backed down before the Democratic Party's own vested interests—particularly the teachers' unions.

By contrast, Mr Edwards's autobiography shifts the focus from condemning the status quo to celebrating the possibilities of American life. His parents' poverty didn't stop him. He was a proud product of America's public schools—unlike the privately educated Mr Kerry—and a star law student at the University of North Carolina at Chapel Hill. He made more than $40m as a trial lawyer by his mid-40s. After the death of his 16-year-old son he threw himself into public life and had two more children.

The trouble with lawyers

That mention of the word “trial lawyer” (one of America's least-loved professions) shows that Mr Edwards's story is hardly perfect. And there is also that lack of experience and the suspicion that he is winging it at least some of the time. But American political careers, for better or worse, are often built on a mixture of unreasonable promise and the mishmash of personal flashbacks that screenwriters call “backstory”. Mr Edwards's up-by-the-bootstraps career sets him firmly in the tradition of self-made politicians such as Abraham Lincoln and Andrew Jackson (a fellow South Carolinian who drove the last son of a president to occupy the White House, John Quincy Adams, into premature retirement). And his response to his son's death shows there is more to him than just a pretty-boy lawyer.

If Mr Edwards lives up to his potential, he could surely build a wider Democratic coalition than the more partisan Mr Kerry can muster. If, on the other hand, he is found to contain nothing more than charm, then he could lose big. By plumping for Mr Clark, the doltish voters of Oklahoma have probably wrecked what little chance there was of a longer examination, and perhaps made Mr Edwards one of the great “might-have-beens” of politics. But even in the past few weeks the freshman senator from North Carolina has established himself as one of the brightest stars in the Democratic firmament: a potential vice-presidential candidate this November and, if Mr Bush survives the coming Democratic onslaught, the main rival to Hillary Clinton in 2008.

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Brazil's trade diplomacy

Looking south, north or both?

Feb 5th 2004 | SÃO PAULO
From The Economist print edition

Lula's government seems to see south-south co-operation as a substitute for freer trade with rich countries. That could be a mistake

Get article background

WHEN Luiz Inácio Lula da Silva looks to the outside world he presents one of two faces: a welcoming one and a wary one. The first was on show last week in India, where Brazil's president signed the first trade deal between Mercosur, a South American trade block that Brazil leads, and an Asian country. He also proposed a full-fledged free-trade agreement among the G20 developing countries, a Brazilian-inspired grouping formed ahead of last year's meeting of the World Trade Organisation (WTO) in Cancún. But this week, Lula's wary face hovered over a meeting in Puebla, Mexico, of 34 deputy trade ministers negotiating the proposed Free Trade Area of the Americas (FTAA).

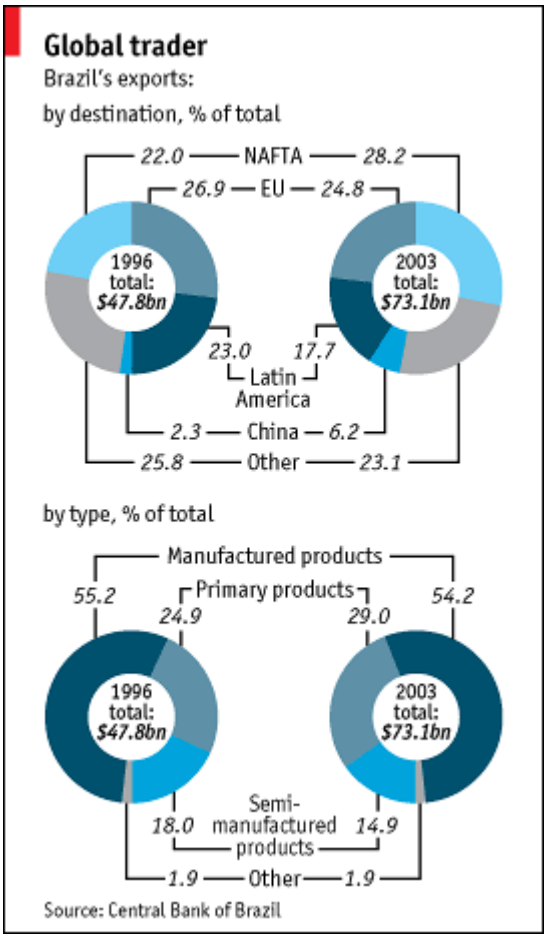
Put the two stances together, and Lula looks like an ardent promoter of an old idea, fashionable in the Non-Aligned Movement in the 1970s: that poor countries can stand up to rich ones and achieve development by co-operating with each other. In 20 foreign trips since taking office in January 2003, Lula has tried to rally developing countries like the union organiser he used to be. He has formed a co-operation pact with India and South Africa, two other emerging democracies. In Geneva last week he joined UN chief Kofi Annan and the presidents of Chile and France in calling for a noble-sounding fund to fight world hunger, whose details are vague. Lula's government claims that its overriding foreign-policy priority is closer links with its Latin American neighbours.

All this serves several goals. Most important, perhaps, standing up to the United States's vision of pan-American free trade does Lula no harm with Brazilians who have suffered a year of tight economic policies. (The same applies to Brazil's recent decision to single out American visitors for fingerprinting.) The partnership with South Africa and India helps to press the claims of all three for permanent seats on the UN Security Council, while the G20 aspires to take on the rich countries in the WTO's Doha round of global trade talks. There is also a harder-headed reason to promote third-world solidarity: developing-country markets are increasingly important to an export boom that underpins the prospect of economic recovery.

For the past two decades, Brazil's export performance has been pitiful. When rising debt and falling

foreign finance threatened the country's financial stability, Lula's predecessor launched an export drive. Mr da Silva himself has pledged to increase exports by 10% a year. Last year, helped by a weaker currency and rising world prices for commodities, they rose by 20%. That helped to turn a current-account deficit, which peaked at $33 billion in 1998, into a surplus of $4 billion in 2003. This provides Brazil with more dollars to pay its external debt, which in turn leads to a higher credit rating, lower interest rates, faster economic growth and, Lula devoutly hopes, more jobs and higher wages.

Brazil's exports to developing countries have risen by 35% over the past five years—nearly double the rise in sales to rich countries (see chart). China has become Brazil's third-biggest trading partner. Although exports to India were just $550m last year, Brazil spots opportunities for cosmetics, medical equipment and Embraer's regional jets.



Certainly, these are welcome new sales. But the United States, the European Union and Mercosur remain Brazil's main markets. And while Brazil's biggest export to China is soyabeans, to the United States it is aircraft. But this is where the wariness creeps in. Lula probably reflects a majority at home in seeing more threat than opportunity in the FTAA, which is supposed to be ready by the end of this year.

In Puebla, as *The Economist* went to press, Brazil was lobbying for an “FTAA-lite”, as it had at a meeting of hemispheric trade ministers in Miami in November. This would impose few obligations on countries to open up such areas as government procurement and services or to impose yet-tougher rules on intellectual property. Such commitments, Brazil fears, could kill big sectors of its industry and prevent others from being born. Besides, the United States has banished from the FTAA the issues that Brazil cares most about, such as farm subsidies and anti-dumping measures. It insists that these be dealt with by the slow-moving WTO talks. The United States has gone along with an “FTAA-lite” while simultaneously offering a dozen countries deeper bilateral or “plurilateral” deals.

Brazil's timidity could be costly. An FTAA without South America's economic giant is “not worth signing,” says Jeffrey Schott of the Institute for International Economics, a think-tank in Washington DC. And a Mercosur consigned to second-class status within the FTAA risks isolation and lost investment. For example, Brazil's hopes for a trade deal with the EU depend in part on the scope of the FTAA.

The World Economy Centre of the Fundação Getúlio Vargas, a Brazilian business school, reckons the FTAA and an EU-Mercosur deal could allow Brazil to increase its exports by 20% a year, cutting by half the ratio of debt payments to exports, and lifting Brazil's credit-rating to investment grade. This could be the foundation for a new stage of sustainable growth, according to Carlos Langoni, the centre's director, and “much more important” than any industrial policy which the government might pursue.

South-south trade is unlikely to pay off so handsomely soon. China will be a fierce competitor for Brazil's manufacturers, as well as a promising market for its commodities. India is one of the world's most protected economies. Even Argentina, Brazil's closest diplomatic friend, is trying to reduce imports of Brazilian textiles without flouting the rules of Mercosur. Lula's wariness in dealing with the United States is understandable, especially in the absence of progress in the global trade talks. But that need not make it wise.

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Canada's new government

A centrist manifesto

Feb 5th 2004 | OTTAWA
From The Economist print edition

Paul Martin gives and withholds

Reuters

The Liberals reckon that Martin will take them to a fourth term

Get article background

RATHER than the announcement of a legislative programme, it seemed like a manifesto for an early election. That was the opposition's view of the Throne Speech opening a new session of Canada's parliament on February 2nd. And the Liberal Party of Paul Martin, the new prime minister, did not deny it.

But in setting out the ground on which he will fight the election (likely to come once the snow has melted in May), Mr Martin faced a challenge. In nine years as finance minister under Jean Chrétien, whom he succeeded in December, Mr Martin turned large budget deficits into surpluses partly by slashing transfers to the provinces, which run (most of) health and education. As prime minister, he seems to want to put behind him the image of a budget-cutting millionaire ship-owner on his party's right wing.

So the speech was a lunge for the Liberals' habitual home in the broad centre ground, whence they have dominated Canadian politics for most of the past century. It included promises to improve health care, meet the standards set by the Kyoto protocol on the environment and tackle the decay of economically vibrant but cash-strapped cities. To give the appearance of change rather than continuity, the speech focused on issues and programmes that were overlooked or faltering under Mr Chrétien.

Mr Martin promises an overhaul of student loans, adding first-year college grants for poorer families; that may do more to attract younger voters than his predecessor's proposal to decriminalise marijuana (now dropped). He will set up a national public-health agency to co-ordinate efforts to combat global diseases such as SARS. And as promised in his leadership campaign, he offered cash to help cities build cheap housing and improve transport: C$580m ($440m) a year in rebates from the goods and services tax, with more later (perhaps from the federal petrol tax). But all this came from a warning that Canadians cannot spend their way to the promised land. There will be fiscal prudence and no return to deficits, he said.

From the left, Jack Layton, who has revitalised the New Democrats in a year as their leader, accused Mr Martin of “faking being a progressive”, pointing out that student debt had tripled while he was finance minister. From the right, Grant Hill, a doctor who is the interim leader of the newly unified Conservative

opposition, complained that the extra C$2 billion that Mr Martin promised the provinces for health care was no more than “a bucket of sand in a bomb crater”.

But the trickiest questions for Mr Martin concerned his plans to repair a “democratic deficit” in parliament with more free votes, stronger committees and an independent ethics commissioner. These moves are aimed at restoring public trust after several scandals during the Chrétien years. The opposition scents a new one: last week, it was revealed that Canada Steamship Lines (CSL), the source of Mr Martin's fortune and now managed by his three sons, won government contracts worth C$161m over the past 11 years, far more than previously reported. Mr Martin denied any impropriety and asked the independent auditor-general to investigate.

The Liberals, Mr Martin said, are moving neither left nor right but forward. A May election would come only weeks after the Conservatives choose their leader. The latest poll gives the Liberals 48%. The Conservatives have sunk to 20%, and the New Democrats risen to 16%. Unless the CSL plot thickens, it does indeed look like full steam ahead for Mr Martin.

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Peru's government

Down in the mire

Feb 5th 2004 | LIMA
From The Economist print edition

Another scandal threatens a weak president

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AFP

Toledo looks for a way out

THE economy is growing at a steady 4% a year. Private investment is picking up after a slump of several years. The public finances are edging slowly towards the black. Demonstrations and marches, daily events a couple of years ago, are less frequent now. One might think that Peruvians would be moderately content with their president, Alejandro Toledo.

Far from it. Last week an opinion poll taken in Lima found that just 7% of respondents expressed approval of the president. That is partly because economic growth, centred on mining and gas, has not yet brought more jobs. But Mr Toledo himself must take much of the blame. He is a poor manager, prone to rash promises; his constantly shuffling government has included some competent ministers, but they have often been dumped after a few months in favour of political cronies. His wife, a bossy Belgian-American, is unpopular too. His chief coalition partner, Fernando Olivera, is an unstable opportunist.

Even so, Mr Toledo's failings are minor compared to those of Alberto Fujimori, who ruled Peru in a corrupt and increasingly authoritarian way for a decade until fleeing in 2000. Under Mr Fujimori, corruption took the form of racketeering, bribery and extortion organised by Vladimiro Montesinos, his jailed spy chief. In Mr Toledo's time, the main peccadillo has merely been nepotism, which has claimed two ministers in six weeks.

Last week, however, a scandal (or what is alleged to be one) broke that may be more threatening to Mr Toledo. An audiotape surfaced that purports to record a conversation in late 2001 between César Almeyda, Mr Toledo's former lawyer and a close adviser, and Oscar Villanueva, a retired general who is alleged to have been the cashier of Mr Montesinos's bribery operation (in 2002, he committed suicide while under house arrest). Mr Almeyda is said to have talked about putting pressure on judges to release jailed members of Mr Montesinos's mafia.

Mr Almeyda says that he merely discussed a plea bargain with General Villanueva. Mr Olivera, then the justice minister, at first denied but then admitted that he knew of this meeting. Mr Toledo rushed to distance himself from Mr Almeyda and promised to crack down on any corruption in his government. Coincidently but on cue, his vice-president, Raúl Diez Canseco, resigned; he faces criminal charges for awarding a contract to a relative of his girlfriend when trade minister.

Mr Olivera denounced, without evidence, the hand of APRA, the main opposition, in the scandal. Others see in it the work of Mr Montesinos and his cronies. They have every interest in discrediting democracy and causing difficulties for Mr Toledo. True or false, some mud from the affair will probably stick. The president's position is now so weak that it might not take much more than a Pacific breeze to knock him over before his term ends in 2006. For his country, an early election would be a backward step. He must hope that the opposition thinks so too.

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Haiti's power struggle

A Caribbean deadlock

Feb 5th 2004 | MIAMI
From The Economist print edition

A last chance for peace

Get article background

FOR the past three years, Haiti's president, Jean-Bertrand Aristide, and its opposition have squabbled over allegations of fraud in a legislative election in 2000. In recent months, as the ranks of the opposition have swollen, the protests have turned violent: 51 people have been killed, mostly by police and pro-government thugs. The opposition refuses to allow a new election while Mr Aristide, a once popular but now reviled former priest, is in power. The term of parliament's lower house expired last month, so Mr Aristide is ruling by decree. Now comes a glimmer of hope. Caricom, the 15-member Caribbean Community, has agreed to try to mediate a settlement.

Many other such efforts have failed. This one enjoys much goodwill. At a meeting in December, George Bush told Patrick Manning, the prime minister of Trinidad and Tobago, that he would welcome Caricom's involvement. The American State Department is updating its standing plans for a refugee camp with up to 50,000 beds at Guantánamo Bay. Not because it fears an imminent exodus from Haiti, it insists. But it would surely prefer to avoid one.

After a quick fact-finding mission to Haiti, Caricom leaders met Mr Aristide in Kingston, Jamaica, last weekend. They called on him to disarm pro-government gangs, reform the police force and release political prisoners. He accepted, and also agreed to set up a new advisory council including the opposition and civic groups. He immediately rescinded an order restricting street protests.

Caricom has given the president until March to comply with all its recommendations. If he does not, a call for sanctions is a possibility. But if Mr Aristide does comply, will the opposition play ball? Emboldened by the protests, its leaders insist that the president should resign. They refuse to talk to him, let alone join the new council. “All we want is to exercise our right to march freely and let's see where that takes us,” said Andy Apaid, an opposition leader.

“If they won't sit down with him how is Aristide supposed to meet Caricom's demands,” retorts Ira Kurzban, a Miami lawyer who represents Haiti's government. “All they seem to want is an escalation of violence.” Unless Caricom can bridge the gap, that may very well be the outcome.

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Pakistan's nuclear secrets

Sold

Feb 5th 2004
From The Economist print edition

The net closes on Abdul Qadeer Khan, top nuclear proliferator

Get article background

AFTER years of bare-faced denials, the shocking truth, or at least as much of it as Pakistan's government will admit to in public, has now come out. On February 4th, after days of questioning, the country's top nuclear scientist, Abdul Qadeer Khan, confessed to the president, General Pervez Musharraf, and then publicly, that he was guilty of trafficking nuclear materials to Iran, North Korea and Libya. He also submitted a plea for clemency, and on February 5th, received a presidential pardon. For in spite of the damage done to Pakistan's reputation by the deliberate spreading of bomb-related technology, any attempt to hold Mr Khan accountable for what are claimed to be his private proliferation activities would have been fraught with great risk for General Musharraf.

Mr Khan is still considered by many Pakistanis a national hero for fathering the “Islamic bomb”. He has also let it be known that he would have plenty of dirt to throw back at senior government and military figures if they tried to wash their hands of him completely and put him on trial. As it is, Mr Khan's admissions so far are hair-raising enough.

It all started, he claims, in 1989 with Iran, before the two countries fell out over which side to back in the civil war in Afghanistan. Indeed, the trail of evidence that led Pakistan's Inter-Services Intelligence agency to Mr Khan's door, and has had one of his close colleagues, Mohammed Farooq, in detention since November, begins with names of suppliers given under diplomatic duress to the International Atomic Energy Agency (IAEA), the UN's nuclear watchdog, by Iran last October.

Caught cheating itself last year, Iran put the blame for traces of bomb-usable highly enriched uranium found by IAEA inspectors on its secretly imported centrifuge machines on to its suppliers. Names were handed on to Pakistan, which is still investigating financial links, some through the failed Bank of Credit and Commerce International, that could reveal more of what its nuclear freelancers (about a dozen scientists and military folk have been questioned so far) were up to.

Though suspicions had attached to Mr Khan for years, Pakistan's government had always denied any

wrongdoing. But the evidence from the IAEA is now unignorable. More of it came out after a shipment of centrifuge parts for uranium enrichment was intercepted on its way to Libya, hastening the surprise decision last December by that country's leader, Colonel Muammar Qaddafi, to confess to a hidden nuclear programme of his own.

The IAEA's chief, Mohamed ElBaradei, was taken aback at how much equipment and technology Libya had amassed; and all of it from what he has called a veritable Wal-Mart of black-market proliferation. Libya not only had names of contacts to find answers to after-sales scientific questions, but also the blueprint for a nuclear warhead. The most sensitive materials, parts and documents have now been flown to America for safekeeping. Some, including the bomb design, are thought to have come directly from Pakistan.

Though the network of middlemen and companies involved spans Europe, the Middle East, Asia and South Africa, Pakistan's nuclear suspects are thought to have been at the centre of it. The nuclear programme was supposed to be under close military control. General Musharraf insists there was no official involvement, either now or in the past, in any of these transactions, which, he claims, were motivated by personal greed (official tales of Mr Khan's national heroism have now given way to tales of his great personal wealth and many villas). The covert nature of Pakistan's own bomb project, the general claims, left the scientists with too much autonomy, which they abused. But were they really just in it by themselves, for themselves?

Saudi Arabia and Libya were long thought to have financed Pakistan's nuclear programme. Did that not qualify Libya for a bit of assistance in the other direction? Meanwhile North Korea appears to have got help with its enrichment efforts (which it now denies), and possibly also with warhead design, in return for supplying Pakistan with missile technology: working together on weaponisation would make sense, given that Pakistan's Ghauri missile is a barely disguised version of North Korea's Nodong rocket. All this smacks of official involvement at the highest levels.

For his part, Mr Khan may also not be telling the whole truth. He has reportedly contended in private that his proliferation activities had the support of two former army chiefs, General Aslam Beg and General Jehangir Karamat, though that has yet to appear in any official account. He also claims all such proliferation activities ended in the 1990s, conveniently before General Musharraf set up a National Command Authority over the nuclear programme in 2002 and promised that all proliferation concerns had now been addressed. Yet how then to account for centrifuge deliveries intercepted on their way to North Korea and Libya last year?

General Musharraf's problems do not end there. Many Pakistanis do not want to see Mr Khan disgraced or else want to see the investigation extended to any senior military figures involved too. Mr Khan has said he acted to deflect western attention from Pakistan's own nuclear programme (in 1990 America had cut off all military aid to Pakistan because of its then covert bomb-building) and, in the case of Libya and Iran, as a gesture of support for two fellow Muslim countries. The Islamist opposition in Pakistan has since called for a national strike to protest at Mr Khan's humiliation. Many accuse the general of merely caving into American pressure. Late last year General Musharraf survived two assassination attempts that were blamed on religious extremists, possibly in collusion with military or intelligence insiders. Punishing Mr Khan would not have helped with would-be assailants.

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Bird flu

Not many dead

Feb 5th 2004 | BANGKOK
From The Economist print edition

No sign of a human epidemic—yet

BIRDS are still sneezing all over the continent, but the vast majority of Asians have not caught cold. As *The Economist* went to press, avian flu had spread to ten countries and claimed the lives of around 50m chickens, either from the disease itself, or from massive culls designed to halt it. Despite this avian epidemic, however, the dreaded illness is reported to have infected humans only in Thailand and Vietnam, and is thought to have killed just 16 people. Authorities in Thailand are investigating another 17 suspected cases, while four Vietnamese are battling infection.

Earlier in the week, the World Health Organisation (WHO) sent Asian pulses racing when it announced that two of the Vietnamese victims did not seem to have had any contact with infected birds. That raised the possibility that they had contracted the disease from their brother, another casualty. From the start of the outbreak, the WHO had been warning that a hybrid strain of the flu might begin to pass from human to human, as opposed to from animal to human. That development, some feared, could pave the way for a global disaster akin to the influenza epidemic that claimed 20m-50m lives after the first world war (see article).

Such a grim scenario remains a remote possibility. But the WHO is now playing the prospect down and urging Asians not to panic. Even if the disease has passed from human to human—and this is still not clear—it does not appear to do so any more readily than it passes from animal to human. Avian flu is still a very hard disease for humans to catch.

Nonetheless, investors and politicians remain jittery. The Bangkok stockmarket plunged 4.5% in a single day after news of the possible human-to-human transmission broke. The EU has banned imports of Thai chicken until at least mid-August. Kentucky Fried Chicken in Thailand, as well as other vendors, has been handing out free chicken in an attempt to assuage fears.

Thaksin Shinawatra, Thailand's prime minister, continues to wolf the stuff down as well. But, funnily enough, he has yet to respond to angry locals in the village of several victims, who challenged him to come to eat some of their fowl. Every day that passes, meanwhile, reveals fresh holes in the Thai government's claim that its belated detection of the disease was a “screw-up”, not a cover-up. The Indonesian and Chinese governments, too, face a barrage of criticism about their handling of the outbreak. But with so few people succumbing to the disease, Asia's governments still look unlikely to contract any serious malaise.

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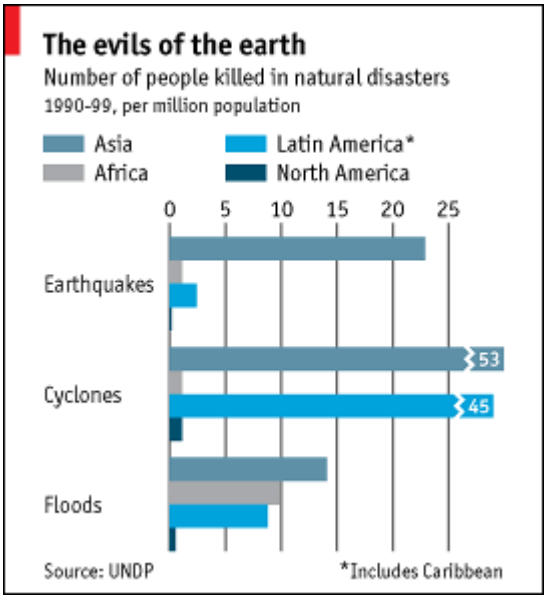
Natural disasters

Earth, wind and water

Feb 5th 2004 | BANGKOK
From The Economist print edition

The heavy cost of nature's wrath



IT IS a risky business being Asian—and riskier than it needs to be. Anyone who has read the depressingly frequent news reports of floods in China, earthquakes in India or cyclones in the Pacific knows that an inordinate number of Asians die during natural disasters. More depressing still, a lack of preparedness and a ham-handed response to such events often seems to do more damage than the natural calamity itself. So, at least, a new report from the United Nations Development Programme suggests, by attempting to quantify the risk of dying in different countries during comparable natural disasters*.

Asia suffers more deaths from floods, cyclones and earthquakes than other continents, even when calculated relative to population (see chart). But the report goes a step further and calculates the proportion of people exposed to natural disasters who die as a result. It finds that 228 out of every million Afghans exposed to earthquakes die, for example, compared with a figure of nine for Japan. As one might expect, rich countries do a better job protecting their citizens than poor ones. But some countries do better than their living standards would suggest: the proportion of people dying during a cyclone in China is less than a third that in the United States.

The report also found a correlation between various other factors and high mortality rates. Earthquakes cost more lives in countries where cities are growing fast (doubtless thanks to poor housing standards), even in relatively well-off places like Iran and Turkey. Flooding is most deadly not in crowded countries like Bangladesh, but in areas with dispersed populations, such as Papua New Guinea—presumably because it is harder to bring help to the victims when disaster strikes.

The report does have its flaws. A country that suffered a particularly catastrophic event between 1980 and 2000, the period studied, will consequently suffer in the rankings. And by relying on deaths as a measure of risk, the report ignores the devastating economic damage wrought by natural disasters. Asian countries that experience regular floods, such as Cambodia and Vietnam, actually score quite well despite enormous economic costs, because relatively few people die. Nonetheless, argues Thomas Brennan, one of the authors, the report makes clear that good planning and efficient administration matter just as much as money when it comes to staving off disaster.

The report is particularly relevant, Mr Brennan argues, since Asia is likely to suffer more from natural disasters in the future. Global warming seems to be prompting more extreme and volatile weather, including fiercer and more frequent cyclones. Flooding, too, will probably become more severe and less predictable, as warmer weather helps to melt ice in Tibet, changing the timing and volume of surges in major rivers such as the Yellow, Yangtze, Mekong, Irrawaddy, Ganges and Indus.

The report also blames ill-conceived tourist development for the destruction of reefs and mangrove forests that once protected coastal areas from cyclones and flooding. But if tourists only knew the risks they

were running, they might never show up in the first place.

Not what was planned

*"Reducing Disaster Risk: A Challenge for Development", UNDP. 2004.

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South Korea

The president and the unions

Feb 5th 2004
From The Economist print edition

A second chance for Roh Moo-hyun to get his way

Get article background

DURING his first year as South Korea's president, Roh Moo-hyun seemed irrelevant in the fight between employers and trade unions. Although he is a former labour lawyer, and had campaigned on pledges to make big business and big labour fight fair, Mr Roh's lack of political experience showed. At times, he stood by idly while militant unions went on strike, crippling the economy with below-the-belt punches. When he did try to referee, Mr Roh's vacillating left both sides even more confused. Now, after nearly a year in office, and as he prepares for National Assembly elections this April, the embattled president is trying to make sure that labour issues are handled better in 2004.

Reuters

She's all right, Jack

One of his new tactics is to shift attention to the disgruntled spectators of the fray: non-unionised workers who gain nothing and can lose plenty when employers and trade unions come to blows. In a speech on February 4th to the Korean Federation of Industries, Mr Roh highlighted the wage gap between full-time workers on long-term contracts and those working part-time or on temporary contracts with few benefits.

This could prove shrewd politics, if Mr Roh manages to stick to the message. Militant trade unions often behave as though any attack on big bad business must be good for ordinary Koreans. Championing non-regular employees shifts the debate, by focusing attention on workers who are less affluent than those with union jobs, and who tend to suffer when strikes hurt the economy. Mr Roh's finance and economy minister, Kim Jin-pyo, hammered on the same theme this week, arguing that wages for the unionised have grown twice as fast as productivity gains in recent years, sapping competitiveness and making it hard to generate jobs for other workers. This argument will mean little, however, if Mr Roh fails to blow the whistle the next time the unions act up.

In the meantime, his administration is thinking up other plans for boosting employment, which fell by 30,000 jobs in 2003. Young voters, who backed Mr Roh overwhelmingly in the election, have been hit especially hard. Although the overall unemployment rate is 3.5%, unemployment among those in their 20s is much higher, at 8.6%.

Last week, the finance and economy ministry proposed a tax break to promote more hiring. Companies would get up to 1m won ($850) per new worker, with the biggest breaks going to firms that offer the long-term labour contracts of which the president is so fond. The government is also toying with another

idea, which would reward companies that delay older workers' retirement in exchange for paying them lower wages.

While he tinkers with the tax code, Mr Roh has yet to follow through on his bolder election promises regarding labour. His original idea was to promote much more flexibility (ie, the ability to sack workers). In exchange, unionised workers would benefit from better enforcement of protective laws already on the books. Non-unionised workers would benefit the most from this grand bargain, gradually growing into a productive group of high-wage consumers (and loyal Roh supporters) as new jobs got created. Whatever his original dreams, however, it will be progress this year if Mr Roh can simply hold down the number of strikes while the economy struggles to get back on its feet.

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Outsourcing to India

On the other foot

Feb 5th 2004 | MUMBAI
From The Economist print edition

India becomes a defender of free trade

THE annual jamboree of Nasscom, the lobby for Indian information-technology (IT) and services firms held in Mumbai this week, has for years been a forum for self-congratulation. Whatever other ills may plague India, its software and, more recently, "outsourcing" firms—call centres, back-office processing, technical support and the like—are an unfailing source of pride, able to take on the best in the world. They also make up the fastest-growing segment of what is now a booming economy. Hence this year's dismay about what is seen as an American effort to change the rules of the one game India is winning.

The catalyst for this was one small part of an omnibus spending bill passed by the United States' Senate late last month. The new legislation would have the effect of banning some departments of the federal government from outsourcing work to poor countries.

The impact is almost entirely symbolic, representing only a tiny proportion of the $12 billion-worth of Indian exports of services expected this year, nearly 70% of them to America. But it follows attempts in a handful of American state legislatures to enact similar legislation. Coming against the background of an American election campaign and the protectionist rhetoric that entails, it has given some Indian firms the jitters.

A gaggle of pro-trade think-tankers and officials were on hand in Mumbai to fuel local indignation and argue the Indian case: that outsourcing represents a great opportunity for American firms and consumers as well as their Indian partners. Diana Farrell of the McKinsey Global Institute called it a "phenomenon of global wealth creation". Stephen Timms, the British government's minister for e-commerce, unleashed enthusiastic clapping with his pledge not to protect British firms from Indian competition.

Among such a crowd of the like-minded, it is not surprising there was unanimity about the benefits of outsourcing service jobs ranging from call-centre operators to software-code writing and desktop publishing to low-wage countries, such as India. But there was little agreement over the issues of how seriously India should take the protectionist threat, and what it should do about it.

The fear is that the American election campaign will, as it runs its course, lead to a bipartisan hardening of attitudes. John Kerry, the front-runner for the Democratic presidential nomination, is one of a number of congressmen who have proposed legislation on outsourcing. George Voinovich and Craig Thomas, the senators responsible for last month's legislation, are Republicans. Many Indian firms, however, are ready to dismiss all the talk of protectionism as so much electoral noise. Their businesses are growing as fast as they can manage, and this remains a distant cloud.

Nor is there a consensus on whether India ought to raise the stakes in the debate by, for example, filing complaints to the World Trade Organisation or threatening to link this dispute with the broader trade relationship and with its stance at the Doha round of global trade talks. But in the context of a burgeoning "strategic partnership" with America, seen as a great foreign-policy achievement, that is an unappealing option.

On the other hand, India, long regarded as a trade curmudgeon and reluctant globaliser, enjoys being on the free-trade side of the argument. And another think-tanker, Steven Clemens of the New America Foundation, thinks the row is having a perverse if beneficial effect: it has alerted small- and medium-sized American firms, many of whom might never have contemplated sending work to India, to the wonderful world of outsourcing.

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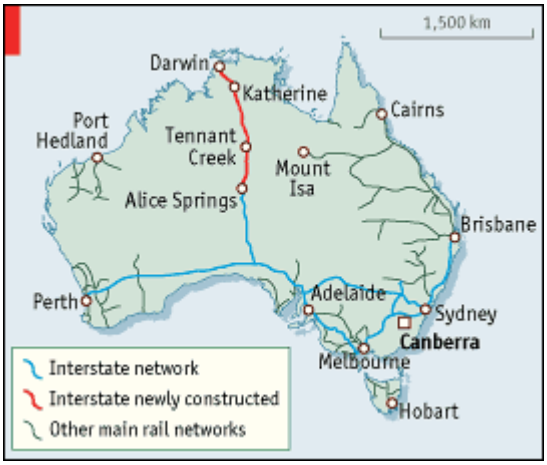
Australia

Into the never never

Feb 5th 2004 | DARWIN
From The Economist print edition

The 1911 from Adelaide finally reaches Darwin



WHEN the first passenger train to cross Australia from south to north made its historic journey on February 1st, two outback farmers bid it farewell with a placard reading “At Last!” The line from Adelaide to Darwin was first promised in 1911 and only ever reached Alice Springs. But not even the dreamers could have foreseen 100 years ago the remarkable sense of achievement when the first Ghan train (named after the Afghan camel drivers who helped open up the outback in the 19th century) pulled into Darwin on February 4th.

The longest passenger train ever assembled in Australia consisted of 43 carriages carrying 340 people, about one-third of them politicians, dignitaries and journalists. The rest paid premium fares for the inaugural journey: A$12,000 ($9,100) for a sleeping berth. A rare exception was Michael Henshall, who won a ticket on the first Ghan to Darwin in 1982, before the line was built. With regular fares at a small fraction of the launch prices, Great Southern Railway, the company that operates the Ghan, has already taken A$15m in bookings.

Harry Haynes and Wayne Horewood, the train's drivers, won the right to take the first train out in a competition among their colleagues. Indeed, competition will decide whether the new line through one of the world's most sparsely populated regions will succeed. It was built primarily to open a freight corridor between southern Australia and Darwin, a link with markets in Asia. Freight Link, the company that operates five freight trains a week, faces strong competition from the shipping lines that connect the bulk of Australia's trade with the bigger eastern cities.

Since the first freight train left for Darwin two weeks before the Ghan, there have been signs that the business could have a future. The road-freight industry in Alice Springs, where goods were once transferred from trains to trucks, has been badly hit. And the freight trains are growing in size.

But it is the Ghan that has captured the public's imagination. The thousands of outback folk who lined the desert track to cheer it on its way, together with the aboriginal dancers, cowboys on horses and children's choirs who welcomed it at ceremonies at new stations in the towns of Tennant Creek and Katherine, reflected a sense that the people of the “never never”—as Australia's remote northern regions are known—finally feel connected with the rest of the country. Pam Confoo, a fourth generation Chinese-Australian, dedicated her trip on the inaugural Ghan to her grandfather, who arrived in Darwin from China in 1876 when camels were the only transport. “My parents dreamed of this train coming one day,” she says. “When it did, I had to be part of it.”

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Israel

Sharon's Gaza gambit

Feb 5th 2004 | JERUSALEM
From The Economist print edition

Getty

Israel's prime minister says he will remove all Jewish settlers from the Gaza Strip. Does he mean it?

Get article background

ARIEL SHARON has built up a great stock of scepticism among Israeli politicians and pundits with his periodic rehearsal of “painful concessions” that he intends to make, sometime, somewhere, in the cause of peace. This week, too, his latest withdrawal plan—from almost all of the Israeli settlements in the Gaza Strip and from several outlying ones on the West Bank—provoked much cynicism and disbelief.

One outraged MP on the far right suggested brazenly what many others whispered: that Mr Sharon is concerned above all to shift the spotlight from the police inquiries he and his two sons are facing over alleged financial offences.

The Palestinians are understandably wary. The Muslim fundamentalists of Hamas, which is particularly strong in Gaza, said that Mr Sharon's announcement proved it was winning the struggle—and that its violence would continue. The beleaguered prime minister of the Palestinian Authority, Ahmed Qurei, who has been trying to persuade Hamas to join a ceasefire, welcomed the statement, but said that Israel should, of course, withdraw from all the Palestinian territories it occupies, including the West Bank.

But this time, along with the mistrust on all sides, there is also real shock among Israelis. It began inside Mr Sharon's own Likud Party, where hardliners cried betrayal and demonstratively stayed away from an important Knesset vote. It also rippled through the entire political community, threatening to crack the present centre-right coalition and restore, perhaps, the Likud-Labour alliance that underpinned Mr Sharon's first term, from 2001 to 2003.

This time the prime minister dropped the deliberate vagueness of undefined geographical concessions. In an interview with the newspaper *Haaretz* on February 2nd, and then in a speech to his party's Knesset caucus, he focused on the settlements that are the most irrationally situated of all, and the most unpopular with ordinary Israelis: those in Gaza.

About 7,500 settlers live in them, on a fifth of the land, among over 1.2m Palestinians. Large numbers of

soldiers are deployed there to protect them. Settlers, soldiers and Palestinians are victims of an incessant guerrilla war that ravages the tiny, teeming Gaza Strip. “There will be no Jews in Gaza under an eventual peace accord,” Mr Sharon declared. So he was proposing to remove them unilaterally. An opinion poll published next day in the newspaper *Yedioth Ahronoth* showed close to 60% of Israelis backing him.

Mr Sharon was still vague about timing. But the deputy prime minister, Ehud Olmert, his closest political ally, said he expects the evacuation to begin by June or July. For the far right, the vision of peace without Gaza is heresy and the idea of withdrawing from anywhere without peace is anathema. But for the hard right there was worse: Mr Sharon intends to put his plan to President Bush when he visits the White House at the end of this month. “If he does that, we're out of the government in an instant,” says Effie Eitam, leader of the National Religious Party. Likud's other far-right ally, the National Union, would probably follow suit. Without them, the ruling coalition would shrink to just the Likud (with 40 seats) and Shinui, the secular centrist party (15 seats), not enough to control the 120-seat Knesset. The Likud, moreover, includes some dozen dissenters whom Mr Sharon can no longer count on.

The far rightists, though, must be careful not to jump ship too soon. Some MPs there point out that they would feel pretty stupid if they were to leave over Mr Sharon's pledges to President Bush, only to find that Mr Sharon himself had to resign soon after because bribery charges were filed against him. A decision by the attorney-general on Mr Sharon's case is expected next month or in April.

The opposition Labour Party (19 seats) is divided, too, between those who hanker back to the days of the unity government and those who swore they would never serve under Mr Sharon again. Till now, the prime minister's peace pronouncements have met with a rote response from Labour: let's see actions, not mere words. But Mr Sharon's latest words are not that easily dismissed. Mr Peres, re-elected on February 3rd as leader of his party for another two years, said that Mr Sharon was “to be congratulated for adopting the Labour Party's platform”. The prime minister's proposal represented “a path from which there is no turning back.”

Mr Sharon for his part telephoned Mr Peres to congratulate him on his re-election. The two friends' courtesies were salt in the far right's sores. The Gaza withdrawal plan, said one National Religious rabbi, was “the collusion of a couple of old-age pensioners”. Collusion or not, Mr Sharon, at 75, and Mr Peres, 80, are both plotting a future that may be very different from the stalemate of today.

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Iran's election

Who will be allowed to run?

Feb 5th 2004 | TEHRAN
From The Economist print edition

It is unclear whether Iran's reformists will fight back or fade away

Get article background

THEY said they would, and this time they finally did. More than a third of the members of Iran's parliament resigned on February 1st in protest against a blacklist issued by the theocratic establishment. The 125 reform-minded MPs who bowed out said they had no choice once the Guardian Council, a body of appointed clerics and lawyers, had upheld the disqualification of more than 2,000 prospective candidates hoping to stand in a general election due on February 20th. A day after the resignations, the main reformist party, the Participation Front, said it would boycott the election, on the grounds that the poll would plainly be rigged in favour of its conservative opponents.

So far, none of this has captured the imagination of disillusioned Iranians who think that the reformists, particularly President Mohammed Khatami, should have taken a stand long ago. The reformists have avoided confrontation for too long and failed, until now, to carry out threats to resign when legislation has been struck down by the Guardian Council or the judiciary has cracked down on dissent.

AFP

Hard for Khatami to preside

The Guardian Council had been unmoved by the three-week sit-in held by reformists in the parliament building. After reviewing appeals from some 3,300 disqualified candidates, the council reinstated about 1,160 of them but kept a ban on the most prominent reformists, including more than 80 sitting MPs. The decisions were said to have been based on an assessment of each candidate's commitment to Islam and to the theocracy.

The reformists still have one weapon that the conservatives may take seriously. Abdolvahed Mousavi Lari, the interior minister, who is supposed to run the election and who is a member of Mr Khatami's reformist cabinet, said he would not administer the poll unless the banned candidates were reinstated. Some regional governors made similar noises. With less than three weeks before the election, Mr Lari and other reformers urged that the vote be postponed to allow time to settle the quarrel, but the Guardian Council said no. If the government refuses to arrange the poll, the hardline Revolutionary Guard and paramilitary groups might have to step in to ensure that the polling stations stay open. That, say the reformists, would amount to a coup—and could finally bring angry protesters on to the street.

Hope of resolving the election crisis now rests with Iran's “supreme leader”, Ayatollah Ali Khamenei, who said this week that the election would not be postponed. Though a creature of the conservatives, he portrays himself as above the political fray and has occasionally stepped in to patch up conflicts that have threatened unrest in the street. The last time was when he urged a review of a death sentence against an academic, Hashemi Aghajari, who had been prosecuted for questioning the clerics' divine right to rule.

With both sides refusing to back down and the stakes rising, the supreme leader faces a tough decision. Some pragmatists quietly support a compromise, in which a certain number of still banned candidates would be reinstated to ensure an element of competition in the election. But the reformists know that if they agree to anything less than a full reinstatement of all those who applied to run, their credibility would be finished in the eyes of those who voted them into office.

Concerned about a possible surrender, the few student activists who have rallied to the cause urged the

reformists not to yield to behind-the-scenes lobbying. The reformists sense that this may be their last gasp. If their effort fails, the conservatives will declare them has-beens and start planning for the presidential election next year, when Mr Khatami's term expires. The conservatives now think they may win a majority in parliament, the one place where the reformists were at least able to vent their dissent, however muted. No more, if the conservatives prevail.

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Iraq and the Kurds

The urge to stay apart may grow

Feb 5th 2004 | ARBIL AND BAGHDAD
From The Economist print edition

Two devastating suicide bombs are making more Kurds think of separation

Get article background

IT WAS not the sacrifice for which Kurds had queued. Two men wearing explosive vests blew up themselves and scores more during Islam's major sacrificial festival to commemorate Abraham's slaughter of a sheep instead of his son. It may have been the bloodiest day in Iraq since Saddam Hussein was toppled. The Kurds say that the bombs, at the two main Kurdish party offices in Arbil, the capital of Iraqi Kurdistan, killed more than 100 of them.

In contrast to the barbed-wire and concrete barriers behind which the Americans live in Baghdad, their Kurdish allies are strikingly lax back home. Road blocks had been tightened after a tip-off that a car bomb was heading their way, so the perpetrators came on foot instead, queuing to shake hands with Kurdish officials. Among their victims was Sami Abdel Rahman, a Kurdish deputy prime minister who had played a big part in negotiations for an Iraqi constitution and was one of the Kurds' most ardent advocates of the idea that Iraq should stay united. One of his sons died with him.

Who did it? The ambitious Kurds have many enemies. Most Iraqi Kurds blame Ansar al-Islam, an Afghan-trained group of Kurdish Islamists, which the Americans say has links to al-Qaeda, or Yemenis abetted by local Ansaris. A week earlier, Kurds near Arbil nabbed Hasan Ghul, a Pakistani thought to be high up in al-Qaeda, and gave warning of imminent attacks. The day before that, a London-based *jihadi* group, the Islamic Observer Centre, said that a branch of Ansar al-Islam had attacked a police station in Mosul, on the edge of Kurdistan, killing 17 people. And the Americans said they had found a disused factory in northern Iraq where “exploding garments” were made. Unlike Palestinian suicide-bombers, who wear bomb-laden belts, the Kurds' killers had shaped their explosives into a vest.

Blaming fellow Kurds, albeit Islamists, at least helped assuage a desire for revenge against the Kurds' old Arab rivals to the south, against whom they have waged an intermittent 80-year war for self-rule. Still, the fact that violence is spilling into their formerly safe haven is dampening Kurdish enthusiasm for America's project in Iraq. After 12 years of de facto independence, Kurds are champing for a referendum to determine their own future over Kurdish-controlled land that Baghdad wants to integrate back into Iraq. The separatist calls are rising as the February deadline approaches for America's proconsul in Iraq, Paul Bremer, to issue a “basic law” to determine the structure and government of a united Iraq when the United States is due to hand over sovereignty in July.

Kurds say the bombings will stiffen their resolve. So far the Americans have placated the two Kurdish leaders, whose parties have yet to unite fully, with an offer of loosely-defined federalism, which they interpret as including their own parliament and ministries. But they also want a say in government in Baghdad. In the basic-law draft being circulated, they want a share of an interim three-man Iraqi presidency comprising a Shia Arab, a Sunni Arab and a Sunni Kurd. That worries Shias, who fear the Sunnis would dominate.

For their part, many Kurds, who pride themselves on a liberal attitude to women's clothes, are loth to have Islamic law applied on their turf. They also flinch at the prospect of a single Iraqi army, which could base Arab troops back in Kurdistan after an absence of 12 years. Though Iraqi militias are banned, Mr Bremer made an exception for the two Kurdish warlords, Massoud Barzani and Jalal Talabani, and let them keep their own private armies, intelligence service and prisons. But, under the basic law's draft, the government in Baghdad would be responsible for defence as well as oil and foreign policy.

The Arbil bombs have hardened the views of Baghdadis who claim that the Kurds need help protecting

their borders with Iran, which *jihadis* seem to cross with ease. But without the moderating voice of Mr Rahman, who had argued for an ethnically-mixed Iraqi army, the Kurds' *pershmerga* guerrillas will demand more strongly that they be allowed to defend their fellow Kurds themselves.

Some in Baghdad are tempted to call the Kurds' bluff and let them go their own way. “What measures and methods are we going to use to make Kurds part of a country they don't want to belong to?” asks a lawyer helping to draft the basic law. That might make Kurds pause. Many doubt that an independent but landlocked Kurdistan could survive. Even if they controlled the disputed oil-rich area around Kirkuk, their foes could block the flow of oil—which is why maps in party headquarters show a Kurdish state arching all the way from the Mediterranean to the Persian Gulf.

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The pilgrimage to Saudi Arabia

Stop the stampede

Feb 5th 2004 | CAIRO
From The Economist print edition

The Saudis are hoping to end the lethal crushes bedevilling the annual Haj

AP

Get article background

LONG ago, when Satan tried to talk Abraham out of sacrificing his son, so prompting the patriarch to throw rocks at the tempter, the Koranic adversaries stood alone with some sheep in the mile-wide valley of Mina, outside Mecca. This year on February 1st, when Muslim pilgrims gathered at the same spot to re-enact the patriarch's wrath, the “guests of mercy” numbered 2m. Each was obliged, as one of the *Haj*'s final rituals, to cast seven pebbles at a pillar representing the devil, a duty requiring the passage of some 2,800 stone-throwers per minute before the 15-metre-wide pit where the pillar stands. Sadly, this year some 251 were trampled to death.

In the past 15 years nearly 3,000 people have perished in fires, crowd-crushes and riots during the four-day ritual. The recurring toll severely embarrasses the Saudi authorities, who pour great care, expense and pride into managing the event. This year, as usual, Saudi officials invoked the will of God, as well as the pilgrims' excessive zeal and indiscipline.

Despite strict national quotas for *Haj* visas, as many as 200,000 extra pilgrims are thought to sneak into the ritual after entering the kingdom on other pretexts. During the stoning, ignorant pilgrims may endanger others by going berserk in what they imagine is the presence of a real rather than symbolic Satan. Others, too punctilious in their observance, add to the crush by insisting on performing the rite before noon, as the Prophet Muhammad is said to have done.

But the design of the site does not help. Part of the $27 billion that the government has lavished on developing the holy places over the past 20 years went to build a wide pedestrian bridge that leads to the Jamarat, or stoning pillars (there are three in all, but only the first is stoned on the *Haj*'s final day). As the bridge approaches the pillars, the passage narrows from 80 to 45 metres, creating what is evidently a fatal bottleneck.

A massive redesign of all the holy sites is under way, with foreign experts and computer models of crowd patterns. To cut down on numbers, the *Haj* ministry now says it will punish countries whose citizens sneak in, by cutting back their quotas. Tour companies whose clients overstay their visas will have licences revoked. Which is all very well. But if the Saudi government wants to help every one of the world's 1.2 billion Muslims to fulfil their religious duty by performing the *Haj* once in a lifetime, it would have to contend with hosting not 2m pilgrims a year but more like 20m.

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Zimbabwe

Talk about talks

Feb 5th 2004 | HARARE
From The Economist print edition

Could Zimbabwe's government and opposition negotiate in earnest?

Get article background

AP

A happy birthday boy

AFTER months of stalling, Zimbabwe's Robert Mugabe is said, at least by South Africa's ever-credulous president, Thabo Mbeki, to be willing to start formal talks with the opposition Movement for Democratic Change (MDC) he has spent the last three years trying to bludgeon into irrelevance. If true, and if Mr Mugabe were serious, such talks would have to lead to rigorously monitored elections that would very likely see the defeat of the ruling ZANU-PF party and disgrace for Mr Mugabe and his friends. So there is still much scepticism about Mr Mugabe's willingness to risk his own political demise.

But if Mr Mbeki is to be believed, talks should start this month, in private, between Welshman Ncube, the MDC's secretary-general, and Patrick Chinamasa, Mr Mugabe's justice minister. If things go well, they would lay the ground rules and set an agenda. The pair had talks, off and on, between May and October last year, but they got nowhere, with ZANU-PF wanting to discuss land issues and the MDC wanting to concentrate on arranging an election—and on stopping the vote-rigging, intimidation and torture that have made a mockery of recent polls.

So there is not much reason to think they will get further this time. The trial of the MDC's head, Morgan Tsvangirai, on charges of treason, resumes on February 11th—hardly a token of reconciliation. According to a leading diplomat in Harare, the capital, Mugabe is still just “playing cat and mouse with Mbeki” in the hope of fending off further international pressure.

If the chief mugger goes

But things may be changing, most of all within ZANU-PF. An internal party battle to succeed Mr Mugabe, who turns 80 on February 21st and has twice recently visited South Africa, probably for medical treatment, is intensifying. The group of ministers closest to him still rejects talks. They want to go on clobbering the opposition and to hold an early general election that is due anyway by the middle of next year. These hard men think that the thumping ZANU-PF majority likely under the current brutal conditions would let parliament make whatever constitutional changes it might choose.

Mr Mugabe would then name a successor and step down next year, paying no attention to the MDC. Either Emmerson Mnangagwa, the parliament's speaker, who is a former long-time security-service head, or Vitalis Zvinavashe, a former army chief, would probably take over. ZANU-PF has been taking soundings at the UN to see if a suitably easy-going team might monitor the elections in the hope that it might be predisposed to give Mr Mugabe's heirs a clean bill of health.

The hardliners point to minor improvements of late. They say, for instance, that inflation in December was down—to just under 600% a year—and that the shops have been fuller since the currency was devalued. They also note a recent crackdown on corrupt businessmen, including some who were close to Mr Mugabe. And they point out that the *Daily News*, the country's only independent daily paper, is back on sale, four months after it was banned.

But another, at present weaker, group within ZANU-PF does want to talk to the opposition and would

consider sharing power for a transitional period in the hope that, when elections are held, people might still vote for a cleaned-up version of ZANU-PF, perhaps with a former finance minister, Simba Makoni, at its head.

This group is more conscious of Zimbabwe's economic demise and the spectre of hunger, as well as fears of cholera and anthrax, now stalking the land. A joint report by the World Food Programme (WFP) and the government, which lies unpublished because of government objections to some of its statistics, says that two-thirds of Zimbabwe's 12m people, including 2.5m people in towns, are now either on the brink of famine or are “food insecure”: not yet starving but unsure whether they will eat a meal a day.

This more conciliatory lot knows that Zimbabweans' plight could worsen fast without more foreign aid, rescheduled debts and restored ties with the IMF. Some even fear that the United States could squeeze Mr Mugabe, to the detriment of his citizens, by stopping contributions to the WFP, which with international charities now provides nearly three-quarters of Zimbabwe's grain, until the government explains how its own stocks will be distributed. The WFP provides nearly half of all Zimbabwe's food and gets nearly half of its supply from the Americans.

Meanwhile, outside pressure remains strong enough to annoy Mr Mugabe without bringing him down. Zimbabwe is suspended from the Commonwealth. And the European Union has lengthened its blacklist of top Zimbabweans who cannot enter the Union from around 60 to 89 people, including (for the first time) the registrar-general of elections. But only if the MDC is given a fair chance of taking over is the country likely to recover properly. And that is still a long way off.

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China and Africa

Forget Mao, let's do business

Feb 5th 2004 | KIGALI
From The Economist print edition

Ideology has gone. Business is what the Chinese care about in Africa

BUSINESSLIKE is how the Chinese like to look, these days, in Africa. On January 31st, China's oil-refining boss signed a deal to buy crude from Gabon. Next day, President Hu Jintao arrived, heralding a new era in Sino-African co-operation. No proclamations of Third World solidarity, no lambasting of American imperialism, certainly no lauding of democracy. Just business “with no political conditions”, as Mr Hu put it to Gabon's parliament. Africa has bountiful natural riches; China has bottomless demand. A perfect match.

Over the past few years, China has returned in earnest in Africa. Before he left his post last autumn as America's main man for Africa, Walter Kansteiner asked his 40-odd ambassadors if they had noticed a marked rise in Chinese involvement in the continent. Half said yes. China has recently built government buildings in Gabon's capital, Libreville, an airport terminal in Algeria, a communications network in Ethiopia. It has built a road in the smartest bit of Kigali, Rwanda's capital, as well as a new ministry of foreign affairs and a convention centre. Under the UN's auspices, Chinese peacekeepers are in Congo and Liberia. And Chinese businessmen are increasingly visible in a host of activities, including timber, engineering and textiles.

Official Chinese statistics suggest that trade with Africa, though still meagre compared with other parts of the world, has been rising for several years. Worth $12.4 billion in 2002, two-way trade probably grew last year by a half. Development aid, widely spread, amounted to $1.8 billion in 2002. The stock of Chinese investment in Africa is probably about $1 billion.

Attitudes have changed sharply since the 1970s, when ideology was proclaimed as the chief motive for trade. The great symbol then was the Chinese-built railway between Tanzania and Zambia. But by the 1990s, China's interest in the continent had all but fizzled. Now, though always keen for Africans to back China's claim to Taiwan, the motives are bluntly commercial.

China has displaced Japan as African oil's second biggest importer after the United States. Demand for it is rising relentlessly. As well as Gabon, Mr Hu visited Algeria and Egypt, which also supply China with oil. In a telling sign of the times, for a brief spell last year China was buying more Angolan crude than the Americans.

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France

Reflections on things past

Feb 5th 2004 | PARIS
From The Economist print edition

AFP

Jacques Chirac's future plans are upset by the conviction of his one-time protégé, and former prime minister, Alain Juppé

Get article background

AT FIRST glance, it might seem a narrow past affair of a has-been ex-prime minister. But the conviction last week of Alain Juppé in a political-corruption trial has far-reaching implications, despite his defiant decision to remain in elected office pending an appeal. It leaves wide open a power struggle on France's centre-right. And it raises fresh questions about the future of President Jacques Chirac.

Grabbing 20 minutes of prime-time television news on February 3rd, Mr Juppé said he was “shattered” by the verdict. Before it, hacks in the ruling Union for a Popular Movement (UMP) party, of which Mr Juppé is president, were discussing which portfolio he might take when he returned to government. But his conviction, for allowing party workers to be paid by Paris's town hall while he was treasurer and Mr Chirac was mayor, was unequivocal. Mr Juppé received an 18-month suspended sentence and was ruled ineligible for elected office for ten years, a harsher penalty even than the prosecution had demanded. He had, the court said bluntly, “deceived the trust of the people.”

The Juppé camp has not hidden its indignation. On television, Mr Juppé portrayed himself as a victim, insisting: “I don't deserve this.” His supporters have queued up to sing his virtues and criticise the sentence. “It's not as if he was filling his own pockets,” said one stunned colleague. Jean-Pierre Raffarin, the prime minister, called the verdict “provisional”. Mr Chirac, visibly taken aback, praised Mr Juppé's “exceptional quality, competence, humanity and honesty”, and invited him to dine tête-à-tête at the Elysée.

Mr Juppé had earlier promised that he would withdraw from public life if convicted. The pleas from Mr Chirac and others persuaded him to fight on. He will now remain a member of parliament and mayor of Bordeaux during his appeal, and he will give up the leadership of the UMP only at its annual congress in November.

Mr Juppé's startling defiance reveals two underlying concerns. The first is the succession to the presidency, for which Mr Juppé has long been groomed. The disarray in the party this week exposes starkly that there is no plan B. Mr Juppé may not have been in government, but he has been a backstage mastermind. A good early guide to Mr Chirac's decisions are Mr Juppé's declarations. Before the president

proposed a ban on religious signs in state schools, Mr Juppé advocated one. He has been busy building up the UMP, a party created from the merger of previous centre-right parties, including Mr Chirac's Rally for the Republic (RPR). In short, Mr Juppé was well-placed for a comeback—and perhaps for the presidency in 2007.

That path now looks all but blocked. The prospect of his conviction being over-turned on appeal, a process that could take up to a year, is slim. It is true that Roland Dumas, a former head of the constitutional council, had his conviction in an earlier corruption trial reversed on appeal. But Mr Juppé's case looks trickier. His defence rested not on a denial of the facts—that employees paid by the town hall were actually working for the RPR—but on his supposed ignorance of them. Yet during the trial, which also involved other town hall bosses, the court heard testimony from Mr Juppé's own former cabinet head that “everybody knew”. Mr Juppé was the party's secretary-general as well as the town hall treasurer.

He may have a better chance of securing a lighter sentence, but that will still leave him with a tough fight to win back public confidence. A *Paris-Match* poll this week showed that, although a majority considered his sentence “severe”, 58% did not want him to have any future political role. The cool technocrat was already unloved for his heavy-handed efforts to force through reforms in 1995-97. His political resuscitation now looks extremely unlikely.

Which leaves *la chiraquie*, the president's political machine, in a bind. The strongest alternative UMP candidate is the one they most fear and distrust: Nicolas Sarkozy, the interior minister. Mr Chirac has never forgiven him for backing a rival candidate, Edouard Balladur, for the presidency in 1995. But Mr Sarkozy is now the most popular politician on the right: last month, 56% rated him as a presidential candidate, next to 51% for Mr Chirac and only 35% for Mr Juppé. The Chirac camp remains determined to thwart his ambitions. Hence the pressure on Mr Juppé to stay in office and clear his name.

The absence of credible alternatives from within the Chirac camp touches the second big concern. If nobody else can stop Mr Sarkozy, and Mr Juppé's ineligibility is confirmed, Mr Chirac may decide to run for a third presidential term himself. This could deal with two inconveniences at once: the Sarkozy threat and the legal charges that may yet be brought against Mr Chirac. If Mr Juppé is guilty, in an affair about which “everybody knew”, what possible defence could his boss offer?

The president's immunity from prosecution while he is in office evaporates when he steps down. The mainstream opposition has been slow to jump on this, but a few voices are now being heard. *Libération*, a left-leaning newspaper, wrote this week of the “berlusconisation of Chirac”. Arnaud Montebourg, a Socialist MP who has campaigned to get Mr Chirac into court, declared that “if justice had been able to go all the way, Jacques Chirac would not be currently at the Elysée.” Meanwhile Jean-Marie Le Pen's far-right National Front, which stands to do depressingly well in next month's regional elections, is relishing the affair, lambasting the UMP's “arrogant dishonesty”.

In some ways, the Juppé verdict points to a renewed robustness in the French judicial system. Not that no efforts were made to interfere in the trial. Three separate inquiries have been set up—by parliament, the justice ministry and Mr Chirac—into allegations of interference reported by Catherine Pierce, the presiding judge. Some speculate that the inquiries are just a political bid to throw the verdict into doubt, but the court insists that it reached its verdict in “total impartiality”. The judgment also comes shortly after top bosses in the Elf corruption trial were put behind bars. Increasingly, it seems, nobody in France is beyond the reach of the law—except, of course, Mr Chirac.

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Ukraine's president

Doing it his way

Feb 5th 2004 | KIEV
From The Economist print edition

After Georgia's "rose revolution", some hope that Ukraine could be the next post-Soviet country to eject an unpopular autocrat. Alas, probably not

TO OPTIMISTS, Ukraine resembles Georgia before Edward Shevardnadze's spectacular, bloodless ousting last November. It has an unpopular president, rampant corruption, widespread poverty and a fragmented but feisty opposition whose leading light is a reformist ex-protégé of the president. Better still, the leading lights, Ukraine's Viktor Yushchenko and Georgia's now President Mikhail Saakashvili, even studied together.

In Georgia, it was rigged parliamentary elections that triggered a popular revolt. In Ukraine, President Leonid Kuchma (who once made Mr Yushchenko his prime minister) is trying to twist the electoral system to his advantage. So when Mr Saakashvili visited his old college friend in Kiev just days after he had helped to overthrow Mr Shevardnadze, everybody wondered what sort of tricks he might teach him.

AP

Kuchma contemplates retirement

But the bigger mystery concerns Mr Kuchma's own plans. Some clues are provided by the behaviour of institutions that normally do his bidding. On December 24th the Rada, Ukraine's parliament, passed the first draft of a bill that would let it, rather than the people, elect the president. A week later the constitutional court allowed Mr Kuchma to seek a third term, on the grounds that the current constitution, setting a two-term limit, came into force after he was first elected. (That the previous constitution set the same limit did not bother the judges.) The opposition was furious, as was the parliamentary assembly of the Council of Europe, which threatened to suspend Ukraine.

This week the Rada voted on the bill again. The article on parliament electing the president was removed. But the bill retains other provisions that, according to Yulia Timoshenko, an opposition leader, give so many powers to parliament as to leave the president all but toothless. That may open the way for Mr Kuchma's forces, which dominate the Rada, to keep control even if Mr Yuschenko wins the presidential election in October.

Mr Kuchma may not even be a candidate then. Only 7.5% of Ukrainians would vote for him today, says Igor Zhdanov at the Razumkov Centre, a think-tank. Winning might require such massive fraud that it would upset voters (and western governments). Then Mr Kuchma really would risk the same fate as Mr Shevardnadze. Besides, he has said repeatedly that he will not stand, and after recent health problems—Kiev was briefly awash with rumours of his death—many believe him.

Hryhoriy Nemyria, a political scientist at Kiev's Taras Shevchenko University, suggests that Mr Kuchma is giving himself options for keeping hold of power after he leaves. If the constitutional reforms are approved, the Rada could make him prime minister. But his surest way to guarantee influence, and a safe retirement, would be to pick his own successor.

The question is whom Mr Kuchma will prefer. It could even be Mr Yushchenko. Finding somebody suitable within the presidential circle would be hard. Three oligarchic clans dominate politics and the economy, and there is nobody besides Mr Kuchma whom all three like. On the other hand, all three probably dislike Mr Yushchenko more than anyone else. Some tycoons fear that, once in power, he and his team might probe the origins of their wealth. So to win, says Olexiy Haran at Kiev University's Mohyla Academy, Mr Yushchenko must reassure the fat cats.

Moreover, rather like Mr Saakashvili in Georgia, Mr Yushchenko surely wants to reduce Russia's influence in his country. That influence remains strong. Russian firms have been buying up Ukrainian assets, particularly in energy. Russia has been pressing Ukraine to let its Odessa-Brody pipeline carry Russian oil south to the Black Sea, rather than Caspian oil north to Europe. A spat over boundaries in the Kerch Strait, which runs between the two countries, ended in compromise last year: to pass through the strait to the Sea of Azov, warships from other countries will need the permission of both Russia and Ukraine. That could be embarrassing if Ukraine ever joins NATO.

Mr Yushchenko has the highest ratings of any politician, but he lacks a solid base in the central and eastern regions that are predominantly Russian-speaking. His victory in October is no certainty. Nor can placid Ukrainians be relied on to fill the streets the way that Georgians did. Mrs Timoshenko proposes to ask for volunteers from the huge Ukrainian diaspora as election observers to expose any fraud. Without such a safeguard, Mr Kuchma and his friends could yet swing things their way—whatever way that turns out to be.

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Romania

Baby trade

Feb 5th 2004 | BUCHAREST
From The Economist print edition

Recent Italian adoptions trouble the European Commission

A CHRISTMAS feel-good story for the Italian government has turned into a new-year embarrassment. After political pressure from Rome, Adrian Nastase, Romania's prime minister, pushed through a long-delayed adoption of 105 Romanian “orphans” by Italian families. But the deal has angered the European Commission—and that could affect Romania's hopes of joining the European Union in 2007.

The commission is angry because the deal broke a three-year-old EU-inspired moratorium on international adoptions of Romanian children. The ban was imposed because these adoptions had become a highly profitable business, in which the welfare of children and their natural families were ignored. According to America's aid agency, USAID, many babies with families were misrepresented as available for adoption. The agency concluded that “children are being adopted out of Romania who would not, in the absence of the financial incentive, have been placed for adoption at all, let alone adopted internationally.”

The story starts in 1990, when pictures of Romania's “orphans” flashed across the world's television screens. Well-meaning folk from other countries promptly started to adopt the children. But the $20,000-30,000 they paid for each adoption proved all too tempting, in a country with average salaries of only $100 a month. The numbers of children in orphanages promptly increased to meet the demand.

Since the moratorium, the numbers have plummeted again. Local authorities have stopped declaring large numbers of children abandoned, because there is no longer any money in it. The EU is instead funding day-care centres or foster care in Romania. But this progress is threatened by pressure from European governments that tend to pay more attention to the concerns of middle-class would-be adopters than to any moratorium.

In fairness, the Italian government was doing only what others have done. Almost 1,000 children have gone abroad as “exceptions” since the moratorium was imposed. The mistake the Italians made was to boast openly about their success. Brussels was quick to pounce. Günter Verheugen, the commissioner for EU enlargement, wrote to Mr Nastase, saying that the case “raises serious questions as to Romania's political commitment...to the protection of children's rights...which is part of the political criteria for accession to the EU.”

In 1990 foreign governments and citizens provided a lifeline and hope for Romania's children. It would be sad if their continuing involvement now dented Romania's standing with the EU.

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European Union constitution

Back from the dead

Feb 5th 2004
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Efforts are under way to revive negotiations on the EU constitution

Get article background

IT WAS thought to have been killed in a Brussels debacle presided over by Italy's Silvio Berlusconi in December. But the European Union constitution is being quietly resurrected—and might even be agreed before the Irish presidency of the EU ends in June. That is a surprise. The talk after Brussels was of delay for a year or more. The Irish prime minister, Bertie Ahern, was invited to report where matters stood to a summit in March. The entry into the EU of ten new members on May 1st, plus European elections in June, seemed to preclude further serious negotiations.

Several things have changed. One is the attitude of the Irish, who at first played down their chances of concluding any constitutional deal. But over the past month Mr Ahern, a seasoned political negotiator, has spoken to every other EU leader. There is little else for his presidency to achieve. Getting a deal that eluded the Italians would be a satisfying coup.

A second change is the realisation that more time may not help. Already in March, the club of EU leaders that failed to agree in December will lose its Greek and Spanish members, after elections in which each is standing down. Later this year, a new commission and parliament will be in place; early next, elections in Britain and Poland may loom. And battles over the EU's next seven-year budget could by then be entering a critical, highly divisive, phase.

The third change is that those who torpedoed a deal in December are now ready to talk. Starting from three texts—the draft constitution proposed by the European convention last June, the report of the foreign ministers' meeting in Naples in November and the (unwritten) summary by Mr Berlusconi after December's summit—the Irish have identified some 20 remaining big disputes. They hope to narrow that list down to four or five, headed by the row over voting that pitched France and Germany against Spain and Poland.

The French and Germans left Brussels talking crossly of forming a hard core of “pioneers” to go ahead without the laggards. But the more they think about this idea, the more they realise that there is little of substance for such a group to agree to. More recently, the two have cosied up to the British, with a trilateral summit planned on February 18th. The French and Germans would now like a constitutional deal—provided they get their way on voting by so-called “double majority”.

That puts the spotlight on their two main opponents, who want to stick to the weighted voting system agreed in Nice in 2000: Spain and Poland. Spain will have a new prime minister, probably Mariano Rajoy, in March. The Spanish want the Germans to be more generous on the budget, so they may trade on voting.

The Poles, too, want cash. But they are more firmly attached than the Spanish to the Nice system. However, they say they are ready to talk after May 1st, when they become full members. They may accept the “double majority”, so long as it comes into force only in 2015, and is approved by a majority of governments in 2009. If the Irish handle matters deftly, a deal may thus be on the cards—though ratification will remain tricky. Britain's Tony Blair, facing hostility to the constitution at home, may be one of the few not to cheer.

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Italy after Parmalat

Spilt milk

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The fallout from Parmalat may be costly

UNUSUALLY, for an Italian scandal, Parmalat has so far had little political resonance. Most voters accept the argument of Silvio Berlusconi's government that it has nothing to apologise for. The company's founder, Calisto Tanzi, and his executives began burying the firm's debts long before Mr Berlusconi came to office. Anyway, politicians cannot fairly be held responsible for outright fraud.

What political links have emerged implicate the old system that Mr Berlusconi claims to have replaced. Leaked transcripts show that Parmalat's former chief financial officer, Fausto Tonna, told prosecutors that some of Parmalat's huge debts—now put at €14 billion ($17.5 billion)—were incurred because Mr Tanzi did costly favours for Christian Democrat bigwigs. Mr Tonna said that Mr Tanzi agreed several times to buy stricken firms whose collapse would have inconvenienced his political friends.

Parmalat nevertheless stands to affect more than a few half-forgotten politicians. Last month, the finance minister, Giulio Tremonti, said the affair would cost the state about €11 billion. That would offset almost exactly the sacrifices the government made last year to cut the budget deficit. But the indirect effects may be even bigger. The image of Italy, and of some its most respected institutions, is in peril.

The Bank of Italy, one of the country's few revered and uncorrupt public bodies, is on the defensive over government plans to remove its regulatory powers over banks and other financial agencies (see article). Italy's feared revenue police are looking into Mr Tonna's claim that his boss could fix the dates of supposedly random tax inspections. This week the very prosecutors probing Parmalat came under a cloud, when the leader of one investigation, Giovanni Panebianco, resigned after being charged with corruption.

Leaks from the inquiries portray a business culture rooted in ties of blood and friendship, peopled by uninquisitive accountants and bankers and held together by a web of reciprocal favours. Attempts have been made to dismiss Mr Tanzi as a dinosaur: a rare survivor from an earlier age of family-based Italian capitalism. That would be more convincing if an apparently similar, if smaller, scandal had not erupted at a software firm, Finmatica.

More even than Parmalat, Finmatica reinforces fears of a specific “Italy risk”, attributable to opaque reporting, poor governance, weak regulation and tolerance of corruption. Such fears could deter foreign investment, damaging an already weak economy. But there is also a risk of their feeding concern over Italy's creditworthiness, raising the risk premium demanded by investors for holding its sovereign debt—and thus the bill the government must meet to refinance it. The country's drive to trim its budget deficit and get into the euro may have distracted markets' attention from the fact that its public debt is still over 100% of GDP. Any derating post-Parmalat could be very costly for Mr Berlusconi's government.

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The European food safety authority

To Parma the spoils

Feb 5th 2004 | ROME
From The Economist print edition

Troubles over the site of a new EU body

TO THE agriculture minister, Gianni Alemanno, it was “a victory for the traditions, identity and history” of Italy. He was referring to the decision in December, after a two-year wrangle, to locate the European Union's food safety authority in Parma, inextricably linked in foodies' minds to such delicacies as Parmesan cheese and Parma ham. (Italy's Silvio Berlusconi memorably, if undiplomatically, said that the Finns, who also wanted the authority, “don't even know what prosciutto is”).

Unfortunately, Parma is now also inextricably linked in many minds with Parmalat, which is based nearby. It was just after the city secured the new agency that Parmalat began to melt down, when it emerged that one of its offshore subsidiaries, called Bonlat, was short of a cool €4 billion ($5 billion).

It was not an auspicious start for a body meant to reassure consumers of the reliability and safety of Europe's food. The tale is not over yet; it has moved on to the tricky question of a suitable building. The local *carabinieri* are still using the stately Palazzo Ducale, which is to be the food agency's permanent base, so it needs temporary accommodation. But the property that was earmarked for this is at the centre of yet another judicial investigation.

The building, on the edge of the old city, was constructed under a project-financing deal involving the local authority and a property firm in which Parmalat's boss, Calisto Tanzi, had a stake. Prosecutors, including one who is investigating the Parmalat affair, charge that the deal had several aspects that were “gravely detrimental to the public good”. On December 4th, a judge agreed to their request that the building be sequestered. Another court has since lifted the order, but the prosecutors have appealed to Italy's highest court. So the new food agency remains homeless.

There is yet another twist. Before embarking on the building project, the city council wisely commissioned an outside expert study. They picked the Italian arm of Grant Thornton, a respected auditing firm, to do it. And for what is Grant Thornton now famous? For checking the books, first of Parmalat and later of its Bonlat subsidiary. The Finns must be laughing bitterly.

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Charlemagne

Free the Strasbourg 626

Feb 5th 2004
From The Economist print edition

Why ambitious young politicians are leaving the European Parliament

IT IS often said that the European Parliament is a powerless institution filled with self-important nobodies. This is most unfair. The parliament is crucially important to the shaping of European Union legislation. And students of recent history would have a great day people-spotting in the Strasbourg corridors. Among the characters they might bump into would be scions of Europe's political dynasties: a de Gaulle, a Macmillan, a Gil Robles. There are even politicians who have made their own names: Mario Soares, first prime minister of democratic Portugal, whose office notes that he is “holder of countless prizes from over 40 countries”; Antonio di Pietro, an Italian magistrate whose investigations into political corruption in the 1990s brought down governments; and Dany Cohn-Bendit, who led student revolts in Paris in 1968 and is now leader of the Greens.

There is still plenty of life in some of these old dogs. Mr Cohn-Bendit this week launched a bold experiment in pan-European politics. At present, European elections are essentially national affairs. Parties such as Labour in Britain, the Socialists in France and the Social Democrats in Germany run their own campaigns, often on largely national issues, and only come together as part of the Socialist group when they are back in Strasbourg. But in next June's European elections, the Greens will become the first political group to run a genuinely pan-European campaign—with common posters, spokesmen and policies across all 25 EU countries. Mr Cohn-Bendit argues that this is a vital step towards the creation of a European political consciousness.

The leader of the Greens is perfectly qualified to front such an experiment. Bilingual in French and German (the French deported him to Germany in 1968), he hopes to switch from a French to a German constituency in June. But the Greens' campaign also inadvertently highlights the difficulty of creating pan-European parties. For the party is hopelessly split along national lines on the most fundamental issues of European politics. Mr Cohn-Bendit is an ardent federalist, who believes in the euro and the new EU constitution. Greens in Britain, Ireland and Sweden are Eurosceptics, who have campaigned against the euro and will certainly oppose the new constitution. To get around such awkward divergences, the Greens' election campaign will focus on issues they can safely agree on: food hygiene, sustainable development, energy policy and so on.

Mr Cohn-Bendit believes it can work. But he is upbeat about the European Parliament in general, dismissing any notions that its legitimacy is undermined by feeble participation in European elections. He points out that a turnout of just under 50% in the elections in 1999 is roughly comparable with that in American presidential elections (and higher than in congressional ones). True enough—but the European figures are boosted by the fact that voting is compulsory in some countries, such as Belgium and Greece. In countries where voting is not compulsory, turnout can be lamentable: eg, 30% in the Netherlands, 24% in Britain (and a poll this week suggested that British turnout might fall as low as 18% in June).

A longstanding federalist radical such as the leader of the Greens may still be convinced that pan-European politics is the wave of the future. But some of Mr Cohn-Bendit's younger colleagues seem to have come to the opposite conclusion. Helle Thorning-Schmidt, a Danish socialist, and Nick Clegg, a British Liberal Democrat, are widely regarded as two of the brightest young MEPs. Yet both are standing down at the next election, in favour of running for their national parliaments in 2005. Their decisions are the more intriguing because, on paper, both look like model “Europeans” who should unhesitatingly be making their political careers in the EU. Both are graduates of the College of Europe, an elite finishing school for aspiring Eurocrats; both speak several European languages; both have married spouses from another EU country. Even more tellingly, both believe that the EU is overwhelmingly a force for good. And yet both have decided that the European Parliament is a political dead end.

Fear and loathing in Strasbourg

Ms Thorning-Schmidt complains that the main impression that Danes have of their representatives in the European Parliament is that they have lavish and easily abused expense accounts. She says it is “incredibly demoralising, always to run into this suspicion that you are only in it for the money.” She hopes that as a national politician she is less likely to be treated with automatic suspicion and disdain. Mr Clegg admits that some British MEPs who have previously been MPs in Westminster have warned him that he is making a terrible mistake by moving back to British politics. He accepts that he is likely to have had more impact on legislation in Strasbourg than he can ever hope to have as lobby-fodder for the Liberal Democrats in Westminster. But, as he also says, “I actually feel slightly queasy exercising all this power that you have as an MEP on such a slender democratic mandate.” And more important than mere scruple is his feeling that, although MEPs may fiddle with the technicalities of EU legislation, fundamental questions about Britain's relationship with Europe—will the country join the euro? will it sign up to the new constitution?—are going to be decided “where all politics begins and ends: at home.”

There is another consideration. The European Parliament is comfortable and interesting, but ultimately somewhat anonymous. There are a few famous MEPs, such as Mr Cohn-Bendit, but none that has made their name in the sterile pastures of the parliament itself. By contrast there are plenty of instances of former MEPs who have gone on to much bigger things back home: for example, Ana Palacio, Spain's foreign minister, or Geoff Hoon, Britain's defence secretary. Legislative power may go on flowing towards Europe. But ambitious politicians still seem to want to return home.

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Intelligence

Another week, another war inquiry

Feb 5th 2004
From The Economist print edition

Reuters

The inquiry Tony Blair has announced will not satisfy his opponents

Get article background

IF TONY BLAIR hoped that his announcement of an inquiry into intelligence failures in Iraq would defuse the argument, he must have been disappointed. Two days later, Michael Howard, the leader of the opposition, was calling for his resignation yet again. Mr Blair's offence, this time round, was to admit that he had not understood that the claim Iraq could launch WMD within 45 minutes referred only to battlefield weapons. Such weapons would not have threatened British bases. The intelligence dossier the government published in the run-up to war had implied they would.

That Mr Howard should concern himself with such minutiae shows how politically toxic the issue remains. A lot of people have an interest in keeping the story going, as the argument over setting the terms of the inquiry showed.

Until David Kay, the former head of America's Iraq Survey Group, explained that “we were almost all wrong”, Mr Blair's response to questions about the missing weapons of mass destruction was that Britain should wait for the ISG to complete its work. As a Downing Street insider put it, “After Kay, that line was starting to wear a little thin.” Once President Bush had announced an inquiry in America, a British one became inevitable.

By the time the inquiry was announced, on February 3rd, there was already a row over its terms of reference. Mr Blair's critics realised that one reason Lord Hutton had disappointed them was that his remit was narrowly drawn. They feared that the same thing was about to happen again.

In fact, the inquiry's terms of reference are a reasonable compromise. Ideally, the government would have preferred to confine the inquiry to an analysis of the discrepancies between the intelligence assessments and the reality on the ground in Iraq. But, after the backlash against Lord Hutton, a minimum political requirement was that the committee, which will report by the end of July, should have the support of the main opposition party.

At Mr Howard's insistence, the inquiry will look not just at the way intelligence was gathered and evaluated, but also at how it was used by ministers during the run-up to war. Mr Howard, who continues to support the war, is right to believe that this is a crucial addition which will cast at least some light on the behaviour of the politicians as well as the shortcomings of the intelligence agencies.

Sadly, this concession was not enough to persuade the Liberal Democrat leader, Charles Kennedy, to take up the place on the committee offered to his party. Against the initial instincts of his foreign affairs spokesman, Sir Menzies Campbell, and Alan Beith, the senior Lib Dem who sits on the Intelligence and Security Committee, Mr Kennedy demanded as the price of his co-operation a widely based inquiry that would examine both the political decision-making and the war's legality.

Mr Kennedy is intent on maintaining intact the anti-war credentials he believes will win him seats at the next election. In his defence, he can also claim to be reflecting the views of much of the media, whose reaction to both the remit and the composition of the committee has been overwhelmingly negative.

No doubt if Mr Kennedy had come on board, the criticism would have been more muted. But the sneering at the man chosen to chair the inquiry is comprehensible only in the context of Lord Hutton's failure to deliver what Mr Blair's opponents had hoped for.

Lord (Robin) Butler, a former cabinet secretary and master of an Oxford college, may be a pillar of the establishment, but he is no New Labour patsy. Before his retirement in 1998, he saw enough of this government from close up to develop a distaste for the way it operated. He was particularly unhappy about the powers given to Mr Blair's two closest aides, Alastair Campbell and Jonathan Powell. In speeches he has made subsequently, Lord Butler has been highly critical of the blurring of lines between political appointees and civil servants.

However, as Mr Blair ruefully acknowledged this week, the only inquiry that can satisfy his most persistent critics is one that finds him guilty of fighting an unjustified war. The prime minister was also correct to observe that it is to Parliament and the people that he is ultimately answerable for his political judgments. For all Mr Howard's excitement, there are signs that both are beginning to tire of the whole issue.

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Immigration

Those roamin' Roma

Feb 5th 2004 | BRATISLAVA AND BRUSSELS
From The Economist print edition

The government may change the benefit system to deal with the threat that lots of poor central Europeans will turn up when the European Union expands in May

AN UNSTOPPABLE tide of British journalists is flooding into eastern Slovakia, swamping law-abiding local residents with demands for free interviews. The reason for the hacks' sudden interest in the obscurer bits of central Europe is that Britain has just woken up to one of the consequences of the enlargement of the European Union on May 1st—the free movement of people and labour, including the wretchedly poor Roma minorities of new member-states like Slovakia, Hungary and the Czech Republic.

AP

Have freedom of movement, will travel

The reaction to the idea that Roma might choose to exercise their right to move to Britain has been—to put it mildly—uncharitable. The *Daily Express* proclaimed on January 20th—"The Roma gypsies of Eastern Europe are heading to Britain to leech on us. We do not want them here." Reports like this prompted Denis MacShane, Britain's Europe minister, to speak out in Parliament against "rancid hate campaigns" in the British press, which he likened to the demonisation of Jewish immigrants in the 1930s. But Tony Blair is clearly feeling the pressure. On February 4th, he suggested that Britain might re-examine its "concessions" to would-be workers from the new EU members and will tighten up the welfare system to prevent possible abuse.

But while the language used by some newspapers is repellent, they may have identified a real issue. Incomes are low and unemployment rates high across much of central Europe. But conditions are much worse still for the Roma minorities, who number about 1.5m in the countries joining the EU this year, and another 3m or so in Romania and Bulgaria, which are on schedule to join in 2007. In Hungary the poverty rate is about five times greater among Roma than among non-Roma, the World Bank reported last year.

The poorest of Slovakia's 500,000 or so Roma live in clusters of wooden shacks without mains water or sewerage, on refuse-strewn wasteland, often segregated from "white Slovak" housing. Families pack into freezing huts. Roma were usually the first to lose their jobs when communism collapsed. Whole villages have been living for years on meagre child-benefit payments, charity and foraging. With no jobs to be had, parents have lost sight of the link between education and employment, so many Roma children are growing up unschooled.

Slovakia's "Roma parliament", a community body, said last month that the favoured destinations for Roma emigrants this year would be Britain, Belgium, the Netherlands, Sweden, Finland, Denmark and

the Czech Republic. Many may be too poor to make the trip to Britain. But for those who can scrape £60 ($110) together, there is a flight from Bratislava to London.

The British government is under particular pressure because it is throwing the labour market open immediately to workers from the new member-states. The south-east of England is already awash with Polish builders and nannies. More may come in May when the remaining restrictions lapse—and a good thing too. But would those who fail to find work be eligible for welfare benefits?

That is not clear. A senior diplomat in one of the accession countries says that he has appealed to London several times for guidance, but that the answers he has received have been incomprehensible and contradictory. One thing is clear, however: EU countries cannot introduce laws that discriminate against other EU citizens on grounds of nationality, so the benefit rules that apply to Britons must apply to immigrants from the rest of the EU.

Other EU countries clearly fear that their welfare systems might be open to abuse. Last week, Goran Persson, the Swedish prime minister, said that workers from the new member-states would, “once inside our country, have access to the entire social security safety net. I expect enormous problems unless we protect ourselves.” The Swedes—and almost all other EU countries except Britain and Ireland—will require workers from eastern Europe to get work permits for the first few years.

Britain is—so far—resisting taking similar measures. British officials point out that insisting on permits for those who want to work will do nothing to roll back one of the fundamental freedoms of the EU—the freedom to move from one country to another. Even without the right to work, central European immigrants could apply for the bottom level of the British social safety net—means-tested payments such as income support and housing benefit.

To qualify for those, applicants must meet a test of “habitual residence” in Britain. This used to be defined as six months' unbroken residence, but the conditions were softened after complaints from Britons who had spent time abroad. Government officials are talking of reintroducing a well-defined “habitual residence” test.

Would such a measure—combined with the fact that the most generous benefits are restricted to people with a record of employment—solve the problem? Not necessarily. Central Europe's poor may still come, on the grounds that poverty in Britain is unlikely to be worse than destitution is Slovakia; and, as one British minister puts it, “If people are lying around on the streets, we won't leave them to die.” The burden of providing emergency housing and food would fall on local social-services departments. This kind of help is normally regarded as strictly temporary, until a more permanent solution can be found. What that solution might be in the case of Roma immigrants is unclear.

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Moving out

Asian flight

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Established immigrants flee the incoming hordes

NO BRITISH neighbourhood is so intensely sub-continental as Southall. On South Road, sari shops and *paan* salesmen nestle next to the Himalaya Palace cinema, which purveys the latest Bollywood blockbusters. While Punjabi Sikhs and Muslims predominate, though, the streets are less homogeneous than they used to be. New faces, many of unfamiliar hues, have arrived in the area. And that does not please the established residents.

“The neighbourhood is getting worse,” according to Ashraf Jussab, a Malawi-born Asian Muslim who works at a local nursery. “When I came here, in 1973, it was safe and enjoyable. Now it has become a dumping ground for asylum-seekers. War criminals, murderers—they are all coming to Southall.”

The immigrants causing Mr Jussab and others so much distress are a mixed group of Afghans, Somalis, Kosovans and east Europeans. Like the Indians, Pakistanis and Bangladeshis who came to London three decades ago, many are refugees; also like the Asians, their arrival has been controversial. But while the outcry over asylum-seekers has been loudest in middle England, it is Asian neighbourhoods like Southall that are actually seeing many of the new immigrants. Among local youths, tensions are rising: one local pastor describes the mood as “dynamite”.

For those who can afford it, and do not wish to fight, flight appears the most appealing option. Southall's Punjabis are heading to Hayes, on the western fringe of London, and to towns in the Thames valley. In Wembley, estate agents report an accelerating drift of middle-class Indians to more distant leafy suburbs like Harrow, Stanmore and Bushey.

The Asian exodus closely follows a trail blazed years ago by London's Jews. This is partly deliberate. Wembley's Gujuratis, in particular, are keen to emulate a group that they perceive as ambitious, educated and family-minded. And the Jews also have the virtue of tolerance. Were Asians to head in other directions, they would run into the people who left London specifically in order to get away from them. For that reason, much of Essex is out; so is Broxbourne, a Hertfordshire settlement just north of the capital that voted overwhelmingly for the British National Party in a 2002 local election.

This shuffling of ethnic groups has produced some new patterns. Harrow, which now contains at least 40,000 Hindus (more than any other borough in the country), is also the second most Jewish area in London. In Redbridge, 28,000 Muslims live alongside Jews, Hindus and Sikhs—each community more than 10,000 strong.

One route remains unexplored, however. Despite the fond imaginings of the BBC, which has placed an Asian family in “The Archers”, a carrot-crunching radio drama, few have explored village life. Earlier experience suggests that such a move would be hazardous to communal identity. Barry Kosmin, who heads the Institute for Jewish Policy Research, says that those Jews who brave the countryside mostly abandon traditional observances.

Indeed, even Asians driven out by the new wave of asylum-seekers have found that it pays to keep in touch with the old neighbourhood. In Southall, absentee landlords have begun to rent space to Afghan trinket dealers and gangs of Kosovan car washers. In Wembley, departing Asians are not so much selling up as remortgaging, subdividing and letting. Repeating another old pattern, yesterday's strivers have become today's slumlords.

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The press

Transatlantic cleavage

Feb 5th 2004
From The Economist print edition

Cultural differences provide an excuse for an article about smut

Reuters

Stars and strips

COMPETITION, this newspaper believes, has beneficial effects pretty much everywhere. This week's British newspapers may lead higher-minded readers to disagree.

On February 1st, a breast belonging to Janet Jackson, a singer, escaped during Super Bowl half-time. High-brow American papers reported the incident, but with no photo. Low-brow papers pictured the recapture, but not the breast. Michael Powell, head of the Federal Communications Commission, called it a “classless, crass and deplorable stunt”. There is to be an official inquiry.

This seems odd to Britons, whose smaller broadcast channels keep themselves afloat on a sea of smut. Not only tabloid newspapers, but also the *Times* and even the *Daily Telegraph* (average age of reader 55) showed the star's spangled nipple, waving joyfully in the wind.

Why the difference? Maybe because secular Britons are no longer shockable, while Americans have clung to their religion and associated puritanism. But the difference does not seem to be one of demand. Miss Jackson's breast topped internet search subjects after the incident was reported.

The structure of the media market seems a likelier explanation. Britain has ten competing national newspapers. Sensationalism jostles with pornography in the pages of the tabloids; softer versions of both infect the broadsheets. America's papers, which tend to be local near-monopolies, can afford a loftier attitude. Newspapers set the tone for television, and the regulators' attitudes.

The Economist, of course, deplores the degradation of the British press. As a service to American readers, who should know how low it has fallen, we publish the picture above.

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About sponsorship

Training

Skills filled

Feb 5th 2004
From The Economist print edition

Britain's skills shortage cripples its competitiveness. Supposedly

IS THERE a skills shortage? The Learning and Skills Council thinks there is. The £8 billion-a-year outfit that runs training for those aged over 16 has released a survey showing that a fifth of all job vacancies are unfilled because the skilled workers can't be found. Worse, employers tell them that 10% of those in work are incompetent.

But the world is full of shortages: cheap nice houses in good locations, for example. If companies won't pay to attract the workers they need, or move to find them, it probably reflects their own competitive weakness rather than anything else.

Moreover, if the supposed skill shortage affects a fifth of vacancies, that means four-fifths fill without difficulty. And as a share of the whole workforce, the number unfilled is tiny—around 0.6%. The same applies to the one-tenth in work that are “not fully proficient”—it means the other nine-tenths are fine. If people move around their companies, it is hardly surprising that a chunk is still learning on the job.

So it is hard to see a clear pattern of shortage. According to a big survey in 2001 by Francis Green, of the University of Kent, skills are increasing roughly with employers' needs, especially for better jobs. At lower levels, there were 5.3m people with “level two” qualifications (typically gained at 18) but only 3.9m jobs requiring them. Some 6.5m jobs required no formal qualifications, against 2.9m available workers.

That is not to say that all is well. The Confederation of British Industry (CBI) said this week that the greatest need was not for new grand designs but for young people with “literacy, numeracy and the right attitude”. Only half Britain's school population gain basic qualifications in maths and English by the age of 16. A further quarter manages to catch up later. That leaves a quarter of the potential workforce unable, say, to read safety instructions or enter data in a computer.

What to do about them? The best answer so far is Employer Training Pilots, a newly expanded scheme now covering about a third of the country. It provides subsidised basic reading and maths lessons to the low-level workers that companies are usually least interested in training.

Everyone gains: employees find it easier to learn in the familiar environment of the workplace rather than in a classroom that reminds them of their fruitless schooldays; employers like it because it can be fitted in around existing shifts. It also raises productivity: one big supermarket chain noted that its stackers made many fewer mistakes once they learnt to read.

Some think that is a cop-out. Unions want a statutory right to time off for training; the chancellor of the exchequer, Gordon Brown, believes that markets fail in providing training, especially to those at the bottom of the heap. The training lobby agrees: the Association of Colleges cites a new survey showing two-thirds of employers would support some compulsion.

That is not as odd as it sounds: employers in the past have supported compulsory training schemes to avoid free-rider problems, when workers enjoy expensive training at one firm, and then leave for another which doesn't train but pays better. But employers' organisations say they would prefer to risk skills shortages than state interference.

Still, the training enthusiasts are convinced that intervention and subsidy are the way ahead. Inevitably, that means bureaucracy: 23 Sector Skills Councils will be set up by the middle of this year, aiming to raise both the demand for skills and the supply of them for the rest of the decade. This heroic task, oddly reminiscent of Soviet central planning, risks eclipsing the idea that individuals and companies are best

able to decide what training will benefit them most.

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Interest rates

Another turn of the screw

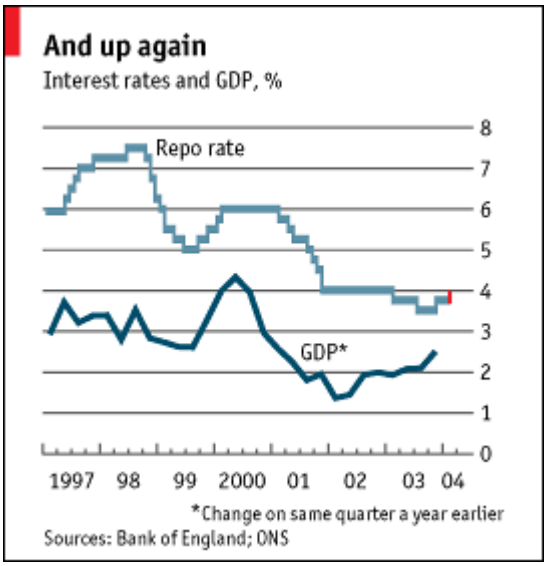
Feb 5th 2004
From The Economist print edition

Why the Bank has raised rates despite low inflation

Get article background

THE Bank of England tightened monetary policy a further notch on February 5th, raising the base rate from 3.75% to 4%. The 48-year low of 3.5% reached last July is now receding into folk-memory.

The decision had been widely expected: the surprise would have been if the Bank had sat on its hands. Yet in America, the Federal Reserve is keeping the base rate at 1%; in the euro area, the European Central Bank is under pressure to cut rates from 2%. So why is the Bank of England, which was first to turn the screw last November, ahead of the game again?



The main reason is that Britain weathered the recent global slowdown rather better than America or the euro area. This shallower downturn means that there was less build-up of spare capacity in Britain. In November, the Bank of England estimated that output was only about 0.5% below potential.

That output gap is fast closing. Since the middle of last year, the economy has been expanding faster than its trend rate of around 2.5%. In the third quarter it grew at an annual rate of 3.3%; this accelerated to 3.8% in the final three months of 2003. This is the strongest growth over a six-month period since 2000, points out Ciaran Barr, an economist at Deutsche Bank. It means that GDP has expanded faster than the Bank was expecting in November.

This robust recovery will be sustained in 2004. Official figures for manufacturing show that it is still struggling. However, the Confederation of British Industry reports that manufacturers are more bullish about output prospects than at any point since 1997. Unlike manufacturing, the services sector, which accounts for 70% of GDP, has been buoyant over the past few months. The expansion looks set to continue, according to this week's purchasing managers' services index, which recorded a sharp increase in business activity in January.

Since December, the Bank has been required to meet a 2% target for the Consumer Price Index. CPI inflation is currently 1.3% but is unlikely to stay this low. Once the spare capacity in the economy is exhausted, inflation will pick up. Since it takes up to two years for interest-rate changes to affect inflation, this explains why the Bank of England has raised rates.

The Bank will continue to tighten the monetary screw during 2004. Now that the world economy is reviving, it wants to rebalance the economy away from consumer spending towards exports and investment. It also wants to take the heat out of the housing market. House-price inflation has been slowing since it reached a peak of around 25% a year ago. But according to the Halifax index, it picked up to 16% in the 12 months to January.

Interest rates are unlikely to rise as sharply as had been expected in November, partly because monetary policy has already been tightened since then by the appreciation of the pound. Three months ago the City's futures markets were betting on 5% by the end of 2004; now they think rates will increase to around 4.5%.

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About sponsorship

Terror and the law

Blunkett tries harder

Feb 5th 2004
From The Economist print edition

Why the home secretary wants new anti-terror courts

AFP

Blunkett launches his long-range attack

HOME secretaries do not normally unveil major reforms of the constitutional and legal system while touring India. So it is tempting to dismiss David Blunkett's musings about anti-terrorism trials as political kite-flying, or a simple case of heat exhaustion. For several reasons, that would be a mistake.

Mr Blunkett wants a number of changes to legal procedures, which he promises to describe in more detail later this month. He suggests that would-be bombers be tried behind closed doors, using spooks' testimony. Cases will be heard by judges, and prosecuted and defended by specially vetted lawyers. Finally, the burden of proof might be lowered, from "beyond reasonable doubt" (notoriously difficult to prove in conspiracy cases) to something approaching the balance of probability.

As human-rights organisations have loudly protested, these are extreme legal measures—surely too savage for the task at hand. But calmer heads believe that Mr Blunkett has not set out to assault civil liberties. Instead, he is trying to hack his way out of two nasty legal and political thickets. If liberties get trampled in the process, that is simply unfortunate.

The first of Mr Blunkett's problems is the situation of foreign detainees in Britain. The government has used anti-terrorism legislation to hold 14 people, but Parliament is unlikely to allow this to continue indefinitely. On December 18th, a privy council review committee found that although detention had "not been used injudiciously or excessively", there was evidence of discrimination, since "it does not deal with British nationals." Since the new powers would also apply to natives, that pesky critique would go away.

The second problem has to do with Britons held abroad. The nine men languishing in Guantánamo Bay are an embarrassment to the government, not because they expose Downing Street's lack of influence over the White House, but because, if released, they would be almost impossible to try in a criminal court. Saving face means building a half-way house between illegal Cuban cages and scrupulously legal British courts.

Mr Blunkett has realised this rather late. America found a possible solution to the Guantánamo problem in 2002, when it set up a system of military commissions (which await their first defendant). Although the commissions are more open to scrutiny than the courts Mr Blunkett wants, they will do the same job.

Tony Blair has offered lukewarm support, telling the Liaison Committee that the civil liberties lobby is in denial about the threat to the nation. But Britain is less jumpy about terrorism today than America was in 2002, and more suspicious of threat assessments. So the anti-terror courts will be a hard sell. The first pitch for reform was made from the relative security of the India-Pakistan border. The domestic fight will be tougher.

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The security business

Looking for protection

Feb 5th 2004
From The Economist print edition

Why security firms are going upmarket

GROUP 4? They're the people who let prisoners escape, aren't they? Well, they did once—indeed several times—but now they are planning to grab one: their largest British rival, Securicor. This week the two unveiled a plan to "merge" their security services in a new company; in practice, if the competition authorities allow it, a takeover by Danish-owned Group 4. And the plan reveals the pressures of a business that one might expect to be booming in these troubled times.

Securicor is a worldwide firm, but about 45% of its turnover and two-thirds of its operating profits are in Britain. It is on the turn now (just the time to snap it up), with a modest profit in the year to last September, but after two years of losses. Its turnover of £1.3 billion is little up on the figure of five years earlier.

Why? Surely the market should be in full boom, after the shock of September 11th 2001? As it happens, that dreadful day was bad for Securicor too: security screening for two of the four hijacked airliners had been done by a Securicor subsidiary, screening is now a federal job in America, and the subsidiary has gone. But the real trouble in Britain, for any big security firm, is in the bread-and-butter work.

Demand for security services is, as one might expect, healthy these days. The problem is the other suppliers. Group 4 and Securicor between them hold only a fifth of the British market in what the trade calls "manned guarding". Price competition is fierce, and margins slim. The reason is that the barriers to entry into the business are low. Just about anyone can join in, given a uniform, some solid muscle and an honest reputation (or not even that: a night-club bouncer is "security").

That is not true of another big trade, cash-handling: NatWest is not a night-club. But competition is still fierce, with firms like Brink's and Securitas also in the field. This sector too has felt increasing pressure, from costs and villains alike.

Securicor's answer was to widen its services. In manned guarding, it has tried to move upmarket, both in the companies it serves and in what it does. It now provides undercover security—more brain needed, less brawn—for big retailers such as Boots and Marks & Spencer. In cash-handling, it went right to the end of the chain, running ATMs, through-the-wall cash machines. And it expanded from moving cash and valuables into a general parcels joint-venture with Deutsche Post. It also set up an information-systems subsidiary, providing IT consultancy, vehicle tracking and more.

Only some of this has worked. Parcels and information systems were sold last year. So were the ATMs, and their operation was outsourced.

Group 4 Falck (as it is since a Danish merger in 2000) has likewise diversified widely into "support" and "business processes" for public authorities from the Meteorological Office to the government spy centre, GCHQ. Just what is profitable, or not, is unclear. But one thing is plain: there is a big growth area for security firms in the justice system: moving prisoners, electronic tagging and actually running prisons, like Securicor's one at Bridgend, in Wales, or the three, plus three centres holding would-be immigrants, that Group 4 runs in England.

This business is still small beer, in volume—less than 10% of Securicor's British turnover. But for all the risks, like the arson at one of Group 4's holding centres two years ago, profit margins are good. And with lots of criminals and asylum-seekers, packed prisons and a tough home secretary, there is plenty more to go for.

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Bagehot

St Gregory of the Beeb

Feb 5th 2004
From The Economist print edition

The characteristics that made Greg Dyke popular were those that let the corporation down

Get article background

THE role of popular hero and victim of the establishment is not one into which former directors-general of the BBC tend naturally to slip. But Greg Dyke has on his side a demotic accent and a great deal of support among BBC ex-colleagues, as well as having the government and Lord Hutton against him. These advantages explain why he has helped turn what should have been a triumph for the government into a partial defeat.

The day Lord Hutton's report into the Kelly affair exonerated the government and piled blame on the BBC, Gavyn Davies, the chairman of the corporation's governors, resigned. The next day the remaining governors in effect fired Mr Dyke. Characteristically, he did not go quietly. After announcing his departure at lunchtime, he spent the rest of the day touring BBC offices, whipping up the shared sense of outrage and basking in the genuine devotion he had inspired during his four-year tenure. Outside BBC buildings, thousands of staff chanted and waved banners demanding Mr Dyke's reinstatement, while inside, money was raised for a full-page advertisement in the *Daily Telegraph* deploring his brutal treatment. According to newspaper headlines, the BBC was in “shock” and in “peril”—vulnerable as never before to the depredations of a vindictive government.

Up to a point. In finding so conclusively against the BBC's allegation that the government had “sexed up” its dossier on Iraq's weapons of mass destruction, Lord Hutton had certainly shaken the corporation's culture of immunity to the core. But the government knows all too well that to punish the state broadcaster further could be politically lethal. For much of this week, ministers, shaken by the backlash, have queued up not only to declare their love for the BBC, but to praise Mr Dyke. What they and Mr Dyke's supporters failed to observe was that in the former director-general's success lay the seeds of the corporation's undoing.

When Mr Dyke took over four years ago, he was in a strong position. After all, he replaced John Birt, one of the BBC's most effective DGs, but also one of its most loathed. Lord Birt took over when the corporation was in real (as opposed to synthetic) danger, from a hostile Tory government. His answer was to curb its anarchic tendencies through an iron adherence to top-down decision-making. “Birtism” worked, but it wasn't much fun.

By the time Mr Dyke arrived, the BBC was not only safe, but, thanks to a skilfully negotiated licence-fee settlement and efficiency gains from new technology, rolling in money. Mr Dyke quickly set about changing the way the BBC was run. His mantra was “cut the crap and make it happen”. According to Jane Root, the controller of BBC2, he “rewired the behaviour of 26,000 people”. Managers were trusted to make decisions, while Mr Dyke's breezy informality was a delightful contrast with the stiff, shy Lord Birt. Competitive to his fingertips, Mr Dyke took on an ITV weakened by a prolonged advertising recession, the costly collapse of its digital service and the distracting merger between Carlton and Granada. For the first time, the BBC won the ratings battle against its commercial rival. New licence-fee-funded digital channels were rolled out, while the BBC also established itself as Britain's most powerful internet publisher.

But the viewing success was won by lowest-common-denominator programmes that pushed the idea of what a public-service broadcaster should do to the limit. The relentless expansionism was seen by commercial broadcasters as deeply unfair. Last autumn, at the Royal Television Society convention in Cambridge, a majority of delegates agreed with the proposition “the BBC is out of control”. And that ratings-driven, anything-goes ethos began to infect the BBC's usually excellent journalism.

Moreover, when the corporation found itself at war with government over the allegations made by Andrew Gilligan on the flagship radio news programme, “Today”, Mr Dyke's delegated management structure proved incapable of responding to the crisis. Mr Dyke himself was culpable for failing to find out what had really been going on. His political nous was a good deal less developed than his business sense—a fatal flaw for the boss of the BBC, who is also its editor-in-chief. Mr Dyke may once have been a welcome corrective to the over-controlling Lord Birt, but the pendulum had swung too far in the opposite direction.

The man with the green eyeshade

Some good may yet come out of this bad time for the BBC. To demonstrate the corporation's independence from government, the culture secretary, Tessa Jowell, has asked the commissioner for public appointments, supported by three privy councillors, to come up with a successor to Mr Davies by April. That person—Lord Burns, a former head of the Treasury, is the insider's favourite—will, in turn, choose the next DG. But in the wake of Lord Hutton's criticisms of the failure of the BBC's board of governors to keep an objective eye on the corporation, the system of governance is also likely to get a much-needed overhaul.

The government is unlikely to hand the BBC over to the new communications super-regulator, Ofcom: the corporation is too big and too peculiar. Anyway, that might look like an act of revenge. But it is likely to try to put more distance between the BBC and its governors—one idea is to give them their own secretariat. The Hutton Inquiry showed that, at present, they see themselves more as the BBC's champions than its overseers. That is why they failed to investigate the shoddy reporting that led to the row with the government. Better governance would strengthen the BBC, not weaken it.

As far as the BBC's journalism is concerned, the fiction of the DG as editor-in-chief should cease. The BBC is too vast an organisation for its chief executive to supervise effectively the world's largest news operation. It needs a dedicated editor-in-chief who gives responsibility to programme editors, backs them when they get it right and sacks them when they don't.

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About sponsorship

The movie business

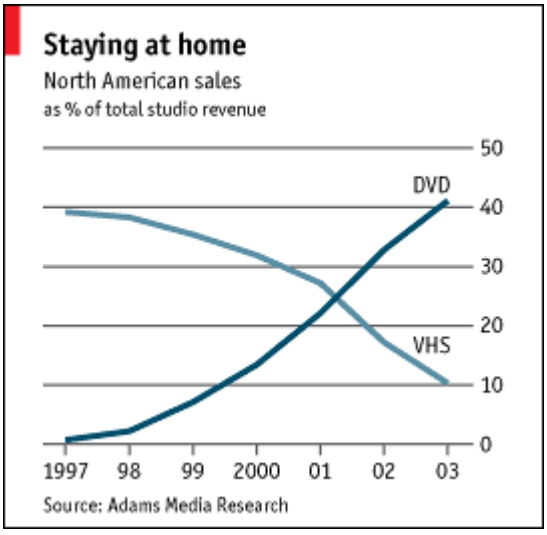
Romancing the disc

Feb 5th 2004
From The Economist print edition

Hollywood has learnt to love the DVD, but can it repel the pirates?

FOR most of the people who run Hollywood, the romance of film is bound up with movie-theatres—the matinee performances they skipped school to see, sitting in the dark on a first date, and stars arriving at premieres. The growing popularity of watching films at home on an array of high-tech equipment, including big-screen TVs and booming sound systems, may seem unglamorous. But thanks to the DVD and its ability to store a feature-length movie at high quality on a small disc, Hollywood now earns more money from home entertainment than from the showing of films in cinemas. In 2003, Americans spent $22.5 billion on DVDs and videocassettes compared with $9.2 billion at the box office, where receipts fell slightly for the first time in a decade.

People are buying and renting DVDs in numbers that Hollywood never dreamed of when the format was being developed in the mid-1990s. Sales and rentals of DVDs account for two-fifths of the studios' revenues, according to Adams Media Research, compared with under 1% in 1997. Studios' revenues from rentals and sales of videocassettes, on the other hand, started to fall in 1999. What is particularly exciting for the movie industry is that people are choosing to buy rather than rent DVDs, as they mostly did with videos.



Buying a DVD provides all the convenience of a video plus far better pictures and sound, greater durability, the ability to skip instantaneously back and forth, and extra material, such as directors' cuts and even simple video games. Hardware manufacturers have slashed the price of DVD players more steeply than any other consumer-electronics device; Wal-Mart has had some for sale in America at $29.87. Now just over half of American households are thought to own one or more. Europe lags behind: only a fifth of households had DVD players in 2002, according to an estimate by Morgan Stanley, an investment bank. But with sales in Europe soaring, it is catching up.

The DVD boom is protecting the entire movie industry, says Rob Friedman, vice-chairman of Paramount Pictures. Without it, he says, current production and marketing costs would be unsustainable. Home-entertainment bosses within studios are moving up the pecking order. “Our numbers have brought us

into the inner circle," says one, despite the fact that they are regarded as lowly packaged-goods executives rather than creative people. Nowadays film stars have to appear on the red carpet for DVD releases, and the home-entertainment people even influence which films get made. Young men spend the most on DVDs, so male-driven films are what home-theatre bosses like best, as well as family themes—not adult drama.

Over time the novelty will doubtless fade, but for now optimism is boundless. Because of DVDs, argues Morgan Stanley in a recent report, Hollywood deserves greater favour from Wall Street. In the past, volatile movie studios acted as a drag on entertainment conglomerates, says the bank, but now DVD promises a more consistent future. If a movie does badly at the box office, this can sometimes be corrected by the subsequent DVD sales. Often the problem is simply timing: the film was released when another stole attention. "Runaway Jury", a thriller based on a novel by John Grisham, is an example, says a studio executive, because it was out in cinemas at the same time as "Mystic River". When the DVD of "Runaway Jury" is released, he says, the film should get a new lease of life.

Hollywood also hopes that people will eventually want to upgrade to a higher-definition DVD. A battle is already raging between two possible future formats. One important decision for the studios will be whether to continue cutting prices to stimulate sales, or to maintain profitability, says Matthew Egol, a consultant at Booz Allen Hamilton in New York. In the long term, video-on-demand over high-speed broadband networks will pose a challenge, but that is still some way off.

Yet the more addicted to DVD that Hollywood becomes, the more painfully it will suffer if piracy gets a grip. This week, the industry's trade body warned that DVD counterfeiting in Asia is rising fast. Piracy comes in three forms: using a camcorder to record a new release at the cinema and burn it onto DVDS; hacking legitimate DVDs and copying them, or making DVDs from video files obtained over the internet.

In all cases, illegal copying involves the use of DVD burners, which are increasingly common in new computer systems and are now being widely sold as replacements for the videocassette recorder. Such devices featured heavily at the recent Consumer Electronics Show in Las Vegas , an event which Lawrence Haverty, a managing director at State Street Research in Boston, dubs the "piracy facilitation show". Mr Haverty says that Hollywood is not doing enough to combat piracy, which he says could still turn DVDs from an enormous positive into an overall negative for the industry.

For now, the movie industry is fighting piracy with a combination of legal enforcement against DVD-burning factories, consumer education and improvements in copy-protection technology. On Hollywood's side is the fact that DVDs are seen by consumers to be good value, and prices could fall even further—from $15-20 now to $10, says Warren Lieberfarb, former president of Warner Home Video, who is known as the architect of the DVD format. The studios' fight against the pirates would be strengthened if they got rid of the delay between the release of a film at the cinema and its release on DVD. The gap has got much shorter, but studios still feel they can make the most money overall by initially restricting films to cinemas. And yet as long as that gap remains it is an invitation to the pirates, observes Mr Lieberfarb.

Hollywood is at the same euphoric stage with DVDs now as the music business was in the 1990s, when consumers bought CDs to replace their vinyl records. After that, piracy and internet-downloads struck and the music industry shrank. Video files are much bigger and can take many hours to download, which for a while offers some degree of protection. Nevertheless, having seen what happened to the music business, Roger Ames, chairman and chief executive of Warner Music Group, advises his colleagues in the film world to join big music's effort to sue individual consumers who download content illegally from the internet. Unless the studios get tough, he warns "They have no idea what's coming their way".

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Airline security

No magic bullets, please

Feb 5th 2004
From The Economist print edition

Armed guards on aircraft are not the answer to better airline security

ONCE again a handful of British Airways and Air France flights to America have been cancelled after alerts over possible terrorist attacks. The warnings came from intelligence sources thought to be listening to telephone conversations between suspected al-Qaeda terrorists. As ever, the threats could be phoney, but no one can take that risk. In addition, an American carrier was affected for the first time when a Continental Airlines flight from Glasgow to the United States was prevented from taking off. Another Continental flight, from Washington, DC, to Houston, where the Super Bowl football championship was being played, was cancelled on February 1st. British Airways says security concerns are hitting bookings. Welcome to the tense, uncomfortable world of today's air travel.

The Houston flight was the first internal American service to be cancelled because of terrorism fears since all aviation was grounded for four days after the attacks in September 2001. Intelligence sources are said to have suspected the plane might be crashed into the Super Bowl stadium. The latest transatlantic threats were thought to involve fears that a biological agent, such as smallpox or anthrax, would be released among the passengers.

These latest disruptions are set to become regular occurrences. In addition to the high-profile cancellations, there are plenty of other late take-offs due to extra security checks. In one incident last month, British Airways had to call armed police to Heathrow airport to remove a passenger already aboard a plane bound for Chicago. The incident happened after cabin crew became suspicious.

Some people suspect there is a link between the recent spate of cancellations and the controversial issue of using armed guards on flights. America is insisting that sky marshals, as they are called, should be deployed on suspect flights arriving from abroad. But European governments are reluctant to do this and talks to establish a code of practice broke down last month. Britain's pilots' union is reluctantly co-operating with guards on selected flights, but has insisted that pilots remain in charge.

After the first round of cancellations a month ago, Britain's transport minister dismissed suggestions that flights were being held because European airlines were refusing to co-operate over armed guards. Nevertheless, some European airline executives suspect that American intelligence is applying pressure to get its way. But in any event, if there is a genuine perceived threat to a particular flight, then cancellation is better than relying on a solitary sky marshal to avert a disaster.

The European view is that putting people with guns on to planes is ineffective at best and possibly downright dangerous. The head of security for a big European carrier reckons it is illogical to put so much effort into keeping guns off planes only then to deliberately put them on. Terrorists, in his view, would simply try to identify the guard and make a surprise attack on him. The prospect of a gun-fight at 35,000 feet may be frightening, but Boeing's head of safety has stated that aircraft are robust enough to survive multiple bullet holes. Moreover, El Al, Israel's flag carrier, has carried armed guards for years and credits them with aborting several hijackings. But El Al is tiny and functions more like a militarised transport service than a commercial carrier.

Americans are more comfortable than Europeans with guns, even on aircraft. Now, by law, American pilots can arm themselves. There is even an organisation trying to recruit civilians to act as unpaid aides to sky marshals, rather like deputies joining a posse. Yet armed guards are not a panacea for airline security.

Protecting passengers from terrorist attacks is the work of plodding detail, ranging from background checks on passengers to rigorous screening at airports and tight security around aircraft on the ground.

America adopted tougher airport security only after the 2001 terrorist attacks, although Europeans have endured much of it since the 1970s. But travellers from Europe are impressed by how slickly the tough new checks are handled even at huge, bustling hubs such as Chicago's O'Hare. However security is carried out, passengers will ultimately pay for greater protection in their ticket prices.

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Europe's low-cost airlines

WhingeAir

Feb 5th 2004
From The Economist print edition

Ryanair protests too much as its subsidies are cut

AP

O'Leary's lost his sweetheart

MICHAEL O'LEARY, the chief executive of Ryanair, Europe's biggest low-fare airline and the most profitable carrier in the world, claims that a European Commission decision this week spells the end of cheap flights in Europe. But his shareholders do not think so: the firm's share price rose by over 6% on news of the ruling. Nor do Europe's 55 other low-fare carriers. Ray Webster, chief executive of easyJet, Ryanair's big rival, said the commission's decision actually strengthens the industry.

Mr O'Leary has given warning for months that the commission's investigation into the incentives his airline gets to use publicly-owned Charleroi airport, in a depressed part of Belgium covered with slag-heaps from old coal mines, was oppressive. In the event, the commission has ruled that only a quarter of the aid, such as discounted landing fees, is against state-aid rules.

This means Ryanair has to pay back only about €4m ($5m) of the €15m of subsidy it has received to bring a flood of travellers to Charleroi, boosting the region's economy. The EU's transport commissioner, Loyola de Palacio, said she was keen to have clear guidelines on what airports could do to attract business, but she objected to the Charleroi deal with Ryanair for being exclusive and not transparent.

Analysts calculate that the decision shaves only about 3 percentage points off Ryanair's stunning 25% operating margin (higher even than Southwest Airlines, the inventor of the low-cost airline model). So the decision is not much of a blow, but it comes at a bad time for the carrier, which has expanded by around 50% in each of the past two years. Now it is paying the price: its load factor last month fell to 71% from 76% a year earlier. It was an average of 81% over the past 12 months. If Ryanair reports a loss this quarter, its over-expansion will be to blame, not the commission's action.

But with the threat of subsidies being cut at other airports it serves, Ryanair might drop some of its least profitable routes. On others it could afford to add a few euros to its fares, which presently average €35. That would hardly be the end of low-fare air travel, which now accounts for 15% of all flights in Europe.

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Computer software

Larry ups the ante

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From The Economist print edition

Why Oracle wants PeopleSoft

DESPITE the millions of dollars that Larry Ellison, the boss of Oracle, has spent pursuing PeopleSoft, a rival business-software firm, doubts about the sincerity of his hostile bid have lingered. Some, like Marc Benioff, a former Ellison protégé who runs his own software firm, called Salesforce.com, have argued that the bid is merely the latest in a string of lunatic claims which serve to keep Mr Ellison's name in the headlines. Others, notably PeopleSoft's boss, Craig Conway (another ex-Oracle man), say Mr Ellison's "diabolical" intentions are not to buy but to wreck his business. By raising his offer for PeopleSoft by 33% on February 4th to a generous $9.4 billion, Mr Ellison should silence such sniping for good.

But Mr Ellison still has plenty of hurdles to clear. Oracle says that it expects the Justice Department's antitrust division soon to rule on the bid. Government lawyers have hinted that they want to block the deal—though whether this is merely a tactic to wring concessions from Oracle is unclear. Meanwhile, Mr Conway has been promising cash to his customers should his firm be acquired and investment in PeopleSoft's technology subsequently reduced. Since this is exactly what Mr Ellison wants to do, Oracle must find a way around these promises, which top $1 billion. A legal challenge in Delaware and a proxy fight for control of PeopleSoft's board await the antitrust ruling.

Mr Ellison's declared goal is to secure Oracle's position in a consolidating industry. After years of rapid growth, the software business is maturing around a handful of big firms, such as IBM and Microsoft, says Mr Ellison. To compete, Oracle has to double or even triple in size "fairly rapidly" by buying smaller and weaker rivals. If Oracle cannot buy PeopleSoft, "we'll start buying other people," he adds.

A second reason for wanting PeopleSoft is weakness in Oracle's own core business. Mr Ellison made his fortune (which *Forbes* puts at $18 billion) building database software. Although Oracle has controlled this business for years, it now faces tougher competition. At the cheaper end of the market, Oracle must deal with Microsoft and MySQL, a Swedish firm whose "open source" software could win database sales just as Linux is doing in computer-operating systems. Among the firm's wealthier customers, meanwhile, Oracle is battling against a re-invigorated IBM. In 2000-02, according to Gartner, a research firm, Oracle's share of new database-software sales fell from 33.5% to 26.9%, as both IBM and Microsoft picked up extra business, with IBM outselling Oracle in both 2001 and 2002. IDC, another research firm, still has Oracle in the top spot. But even its numbers show that Oracle's new-licence sales have shrunk by 10% in 2000-02, as IBM's grew by 41% and Microsoft's by 46%.

Mr Ellison has been using cash from his database business (which probably earns nearly all of Oracle's profits) to invest in "applications" software—the specialised finance, personnel, sales management and supply-chain programs that sit on top of the database. Although Oracle's applications business now absorbs half his firm's software-development costs, Mr Ellison's efforts have so far produced mixed results, including botched software launches and the alienation of other application-software firms, like SAP, which have traditionally sold a lot of Oracle databases.

The customers and, most importantly, software-maintenance contracts that come with PeopleSoft's applications business (together with that of JD Edwards, a mid-market specialist which PeopleSoft bought last year) should help to salvage Oracle's costly applications investment. "From a management-team perspective, PeopleSoft takes care of a lot of sins," says Ray Lane, a former Oracle president.

Is Mr Ellison desperate? If profits in the database business crumble, Oracle could quickly get into trouble. Nor have Mr Ellison's somewhat erratic management changes done much to soothe shareholders. Last month, he appointed as one of his two presidents Charles Phillips, a former analyst with Morgan Stanley who was recruited only last year. Lanky and personable, Mr Phillips nevertheless gave an uncertain

performance at a recent Oracle trade show in San Diego.

Furthermore, it is not clear whether Mr Ellison's testosterone-fuelled style is well suited to the delicate task of merging software firms. In his opening salvo at PeopleSoft last June, he declared that he would stop selling PeopleSoft's software and end all future updates. Although forcing customers to migrate to your own products in this way is a standard method of acquiring new business in the software industry, it is not thought wise to declare such intentions in advance. As one rival puts it, “if you're going to piss in the swimming pool, don't do it from the diving board.”

On the other hand, Oracle probably did better in databases last year than in 2001 and 2002. Mr Ellison's mastery of technology and dedication to quality are impressive. New initiatives to bring joy to Oracle's sometimes neglected customers seem to be making headway. The PeopleSoft bid is unlikely to make or break Oracle. But on it rests a lot more than Larry's ego.

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Innovation in Japan

Pay me

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Changing the way Japan invents

UNTIL a few days ago, Shuji Nakamura was just another rebellious inventor who had succeeded by trusting his instincts and ignoring the guys in suits. When his superiors at Japan's Nichia Corporation told him to stop wasting time on blue light-emitting diodes (LEDs), he pressed on anyway. As a result, blue LEDs are now used in everything from optical scanners to traffic lights, earning Nichia a tidy sum. And now, after launching a second rebellion, Mr Nakamura has scored an even more stunning victory. On January 30th, a judge agreed that he should share in the profits his former employers have made from the patent and awarded him ¥20 billion ($190m). This has prompted scientists across Japan to dream of being paid like those in America.

They were excited enough even before Mr Nakamura's victory. A ruling by Japan's Supreme Court last April, involving a patent owned by Olympus, opened the way for scientists to ask for a reasonable share of an invention's market value. The best that even Japan's most successful researchers had been able to hope for is a small bonus and a pat on the head. Hence the interest in the court rulings.

Indeed, the day before Mr Nakamura's victory, a Tokyo high court ruled in favour of another scientist, Seiji Yonezawa, in a case against Hitachi. Mr Yonezawa had already won ¥35m from a lower court over a patented technology for reading data on CDs. The high court said he also deserved a share of overseas profits from the invention, and boosted the award to ¥163m. The lawyer who represented both scientists, Hidetoshi Masunaga, hopes for victory later this month in a case against Ajinomoto, Japan's biggest processed-food company, over an artificial sweetener that another of his clients helped to develop.

The bosses are scrambling to put their scientists back in line. Japan's parliament, unsurprisingly, is looking to help. It will soon consider a bill to revise the patent law, making it harder for researchers to win big awards. Even the prime minister's website has said, in classic double-speak, that it supports this revision partly “for the purpose of securing R&D incentive for inventors”. “They are not doing it for inventors,” says David Case, a legal expert in Tokyo. “They are doing it for companies, which is customary in Japan.”

Hopefully, some managers will conclude that motivating inventors with a share of potential royalties is a good way to spark profitable innovation. Many talented researchers, following a broader Japanese labour trend, consider lots of money to be an excellent incentive. Indeed, R&D managers at some Japanese firms have already begun to craft new pay schemes for researchers. Provided parliament does not wreck the process, some companies may even begin to emulate American practices, by specifying a share of potential rewards in researchers' contracts. Then the suits can get back to the boardrooms and the scientists return to their laboratories.

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Japanese mergers

A new makeover

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Kao buys a beauty business from an ailing beast

IT IS a big deal, and there could be bigger ones to follow. Kanebo, a Japanese consumer-goods firm, said this week that it is negotiating to sell its cosmetics business to rival Kao for around ¥400 billion ($3.8 billion). That would make it the biggest deal ever between non-financial Japanese firms. Kao, which will acquire a much bigger cosmetics business than its own, hopes to improve its standing in an industry where it is relatively weak. Kanebo's motives are more simple: it is just hoping to survive.

The deal may reveal more about Japanese business trends than it does about the future of beauty products. Japan's cosmetics market is saturated with big companies, such as Shiseido, the local leader, and foreigners, like America's Procter & Gamble. Price competition is fierce and Japanese cosmetics firms are looking overseas, especially to China, for future growth. Together, the cosmetics divisions of Kanebo and Kao will have combined annual sales of ¥300 billion, which would still fall well short of Shiseido's ¥480 billion of cosmetics sales. And since Kanebo has little overseas business, Kao still has to forge a convincing international strategy.

Kanebo, on the other hand, has ¥520 billion of debt and a negative net worth. Last year, it was tipped as a potential candidate for the Industrial Revitalisation Corporation, which was created to overhaul troubled debtors using government money. By selling what is arguably its most-prized asset to raise cash, Kanebo has taken at least a step in the right direction, even though the company remains in bad shape.

What many investors are hoping is that this could be an indication of things to come. Optimism abounds in Tokyo these days, amid signs both that big banks are getting tougher on some borrowers and that corporate profits are improving the balance sheets of others. These trends, if they take a firm hold, could lead to different sorts of pressure on both beauties and beasts. More beasts, such as Kanebo, may be forced by creditors to take painful steps to restructure and shore up their balance sheets, while shareholders could look more closely at the beauties, and try to pressure them into making better use of their profits. So watch out for more big Japanese deals to come.

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Health foods

Snake oil

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Regulating dietary supplements

WHAT do Sir Paul McCartney, Sir Cliff Richard and Sir Elton John have in common? Besides knighthoods they also support “Save our Supplements” (SOS), a British campaign that wants to protect food supplements based on vitamins, minerals and herbs from European regulation. Last year, SOS collected more than 1m signatures for a petition against the European Commission's Food Supplements Directive, which is due to come into effect in August 2005. On January 30th, the campaign scored an unexpected victory: a British judge ordered the referral of two lawsuits over the directive to the European Court of Justice in Luxembourg.

It is not only Brits who are getting hot under the collar over what might happen to their favourite supplements. In America, where some $19 billion-worth were sold last year, the pharmaceutical industry says all such pills and potions should meet the same strict standards as drugs.

Natural remedy?

The European case could delay the introduction of the new directive, which would ban all but 13 vitamins and 15 minerals. Britain, Sweden, Ireland and the Netherlands at present have easy-going rules. But Germany and France impose tight restrictions on supplements, which are sometimes called “nutraceuticals”. These would have to be relaxed when the directive comes into effect.

Some 300 substances used in some 5,000 products in Britain are not on the directive's list of permissible supplements. These products will have to be removed from shops unless they pass a safety test. As the cost of testing is often more than £80,000 ($145,000), only a handful of producers have even begun to do this. The commission is also imposing detailed rules on labelling and usage, and it plans to fix the maximum dosage of vitamins and minerals at a level likely to be lower than what is recommended in Britain now. In 2007, another edict on essential fatty acids, plant and herbal extracts and fibre is expected. This will provide a high level of protection for consumers, claims David Byrne, the commissioner for health.

But do consumers need so much protection? All vitamins and minerals are safe in small doses, though some may do harm in large doses. Too much vitamin C, for instance, may harden arteries, though not all researchers agree. Whether supplements work and live up to the claims made on packages is another matter. According to Marion Nestle at New York University, the more research is done on supplements, the less effective they turn out to be. “What they say it does and is in the bottle is usually not true,” she adds. There is, however, a bit of a placebo effect. Four out of ten British consumers and six out of ten Americans who take food supplements believe in their benefits.

At the start of this year America's Food and Drug Administration (FDA) finally banned ephedra, which accounted for about one-tenth of the industry's annual sales in America. (Ephedrine, the herb's active ingredient, can help people lose weight and become more energetic.) But it took the FDA almost ten years to impose its ban, despite reports of ephedra contributing to more than 155 deaths, including the death last year of Steve Bechler, a popular Baltimore Orioles baseball player.

America has little regulation. The Clinton administration's Dietary Supplement Health and Education Act of 1994 effectively deregulated the industry. The business also has powerful political allies: Orrin Hatch, an influential senator from Utah and one of the sponsors of the act, has consistently supported its cause. It is partly thanks to Senator Hatch that Utah has become one of the big centres of supplement

production.

America's pharmaceutical industry argues that food supplements should be safe and that, if products make health claims, they should be proven ones. That is difficult to argue against. But if supplements do have a placebo-like effect, there might still be a bit of room for creativity.

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Holistic health

Yoga with a prescription

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A revolution in the pharmacy business?

WHAT happens to groovy, outraged, pierced but ageing radicals as they get creaky and discover that holistic health is more interesting than Che Guevara? Stuart Skorman, an entrepreneur in Berkeley, California, realised this screamed for a new paradigm in the pharmacy industry. Since his chemist, the Elephant Pharmacy, opened a year ago it has become a regular destination for many of Berkeley's greying hippies, as well as a number of (mostly female) fanatics from other parts of the San Francisco Bay area. Few come just to get their prescription pills. Most also stroll through the Chinese medicine section, take a free class on “Nutriculture” or “Cultivating Daily Enlightenment”, or read up on meditation in the library.

“It's like a community centre,” says a customer who came in to have her doshas analysed by the Ayurvedic consultant who drops in on Sundays. “I never thought that I would go to a pharmacy just for fun,” says another, socialising in the aisle for Yoga mats. What customers love about Elephant, says Mr Skorman, is that they can learn about health from both the eastern and western traditions. They “trust us to tell them the truth,” he says. “That's the brand.”

There is a hitch, however. “There are businesses that customers love that don't make money,” says Mr Skorman, who sometimes wonders if his might be one of them. As a business model, something like a “green Walgreens” is implausible, he now realises. To make money from selling pills, a company needs to be big to haggle for bulk rates, but Elephant Pharmacy is a tiny start-up. Worse, it has elephant-sized costs, because the whole point is to have expert staff.

Hoping to get some scale into the business, Mr Skorman is now negotiating with several nationwide department stores and chemists to operate Elephant kiosks inside their shops. If he can just avoid going bust, he reckons his business will have a future. Starbucks, after all, brought Italian-style coffee from Seattle to the world because it was the first firm to see that the world was ready. In a similar way, Mr Skorman hopes that he is the first to spot the need for a new kind of pharmacy. “We have the name Elephant trademarked in pretty much every country except Norway,” he adds. He may be about to make history by launching a new global trend. All the Elephant fans in Berkeley are hoping that he stays in business.

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Face value

Finding another Nemo

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AP

Ending his deal with Disney could be Steve Jobs's biggest bet

WHEN Steve Jobs unveiled a new handheld music player, the iPod, in 2001, the nay-sayers saw his “breakthrough digital device” as an overpriced gizmo with limited appeal. Who would pay $399 for a music player, more than twice the price of rival products? Mr Jobs had the last laugh, of course. The iPod went on to become the leading digital music player and a must-have fashion item. But this was not the first time that Mr Jobs has bet on a hunch and won. He has made a career of it.

When he co-founded Apple in 1976, Mr Jobs bet that there would be a mass market for computers. And there was. The launch of the Macintosh in 1984 was predicated on the notion that giving computers a graphical interface, controlled with a mouse (then a real novelty), would broaden their appeal. He was right again, although Apple lost out to Microsoft in the ensuing fight to set the standard. Mr Jobs's decision in 1999 to launch a range of iMac computers in different colours was also derided, but proved popular enough to turn Apple's fortunes around. Last year came another bold move. With the launch of the iTunes Music Store, Mr Jobs dared to suggest that there might be a way to get people to pay to download music from the internet rather than steal it. Once again, his nose for a new market proved accurate: Apple now sells millions of songs every month.

In between all of this, Mr Jobs also finds time to run Pixar, a Californian firm which specialises in making computer-animated films. This is another of his correct bets: he bought the firm in 1986 for $10m and so far five movies—“Toy Story”, “A Bug's Life”, “Toy Story 2”, “Monsters, Inc” and “Finding Nemo”—have brought in $2.5 billion in revenues. Mr Jobs became a billionaire when the company went public in 1995. While other technology moguls struggle to make their mark in the media business, Mr Jobs moves effortlessly between the two worlds.

His defining characteristic is an unalloyed confidence—some might call it arrogance—that his own judgment is correct, whatever other people say. This is coupled with extraordinary powers of persuasion: he is said to be surrounded by a “reality distortion field” that enables him to convince everyone in his immediate vicinity that he is right. And he is unquestionably the greatest showman in the computer industry.

But has Mr Jobs gone too far with his latest bet? On January 29th, to the amazement of Hollywood, Pixar and Disney announced that they had broken off talks to renew a seven-year-old deal under which Disney funds half of the production costs of Pixar films and receives half of the profits plus a distribution fee. The

agreement between them was made in Pixar's humbler days, and since last year Mr Jobs has been free to negotiate a more lucrative deal. With such a string of hits, he could go to any Hollywood studio. But everyone expected that Pixar would stick with Disney—and some even argue that ending talks is only a negotiating tactic by Mr Jobs.

His current agreement with Disney covers two more of Pixar's films—“The Incredibles” and “Cars”, which are scheduled for release in 2004 and 2005. Mr Jobs wanted to rewrite the agreement so that Pixar gets more than half of the profits from these two films. Disney also has the right to make sequels to all the movies it co-financed, but Pixar wanted to claw back ownership of its next two movies. Disney refused to rewrite the deal, saying that Mr Jobs's demands would have cost it hundreds of millions of dollars.

Life without the mouse

Walking away from Mickey Mouse & Co means that Pixar's profits will be significantly lower in the next two years than they might have been if Mr Jobs had succeeded in winning a better deal. Disney is a global marketing and distribution machine, with powerful theatrical and television distribution, as well as theme parks, children's radio and retail stores. It is unrivalled in the field of family entertainment. If Pixar has to finance films on its own, it will be more vulnerable should one of its creations flop. This does not seem to bother Mr Jobs.

Moreover, leaving Disney will improve his life: he will no longer have to spend hours wrangling with Michael Eisner, Disney's chief executive. Both men are strong-willed, egotistical perfectionists, and Mr Jobs is said to feel that Mr Eisner treats Pixar with insufficient respect. Their first big fight was over a planned sequel, “Toy Story 3”, which Disney now intends to make on its own. Then in testimony before the Senate commerce committee, Mr Eisner criticised Apple's “Rip Mix Burn” advertising campaign as an incitement to piracy. Mr Jobs was furious. “They hate each other,” says a Hollywood executive who has listened to Mr Jobs complain about Mr Eisner. In breaking off the negotiations, he says, the short-tempered Mr Jobs is deliberately punishing Disney and its chief.

Putting revenge ahead of the numbers will not impress Wall Street, where some analysts and investors reckon that Pixar's shares are already overvalued. The biggest unknown is whether Pixar can continue its run of hits; most studios, after all, run out of luck sooner or later. Big Hollywood players, though, are longing to do a deal with Mr Jobs, even if they get nothing more from him than a 12% distribution fee.

Their reason is Pixar's pool of talent, starting with John Lasseter, a former Disney animator. Mr Jobs's experience of dealing with computer programmers, says a media banker in New York, means that he knows how to manage creative people. Hardly anyone at a senior level has left Pixar. The company is so committed to quality that it even started again from scratch on “Toy Story 2” when it was not happy with the first attempt. Taking on Disney with tiny Pixar may well be Mr Jobs's riskiest gamble yet. But then, tiddlers going up against the big fish has always been a good Hollywood theme.

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Currencies

Competitive sport in Boca Raton

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Alamy

Europeans think the dollar is in danger of becoming too weak; Americans disagree. Who is right?

Get article background

ALAN GREENSPAN and John Snow, respectively the chairman of America's Federal Reserve and the secretary of its Treasury, will be challenging their European counterparts to a game of tennis when the finance ministers and central-bank governors of the G7 group of rich economies meet in Boca Raton, Florida, on February 6th and 7th. But the swing of their rackets will be less on the minds of American and European finance officials than the swings in their currencies.

The euro has risen by 50% against the dollar since its trough in July 2001. European officials are frustrated by America's lack of concern for the dollar's slide and the disproportionate burden this is imposing on the euro. In the run-up to the Boca Raton meeting, some European policymakers were calling for a joint statement to stabilise the dollar. But this seems likely to have fallen on deaf ears. As John Connally, a former treasury secretary, told the rest of the world in 1971: “The dollar is our currency, but it is your problem.”

Although the dollar has strengthened against the euro over the past two weeks—thanks to slightly more hawkish comments about interest rates from America's Fed and efforts by the European Central Bank to talk its currency down—its slide has quickened since the G7's previous meeting in Dubai last September. Then officials called for “more flexibility” in exchange rates, but they have since disagreed about what that really meant. John Snow initially described the statement as a “milestone change”, sending out a general signal that the dollar needed to fall further.

Others interpreted it as a veiled message to China and Japan to stop intervening in the foreign-exchange market and let their currencies rise. If indeed that was the message, both countries chose to ignore it. China's currency, the yuan, remains rigidly pegged to the dollar while the Japanese continue to buy dollars galore in order to hold down the yen.

A new agreement on exchange rates at this weekend's meeting seems unlikely given that the G7 members (America, Britain, Canada, France, Germany, Italy and Japan) have such different goals. The Americans do not see any problem for the moment in letting their currency fall, while the Europeans want action to stabilise it. Japan, meanwhile, is single-mindedly continuing its massive intervention in the currency markets.

A level playing court

When the dollar first started to wobble, in early 2002, America's economy was weak. Today, however, it is growing far faster than the economies of the euro area and Japan. So why is the dollar still sickly?

The obvious answer is that investors are less eager to finance America's vast current-account deficit than they once were. Given that stronger growth in America than elsewhere could cause that deficit to swell still more this year, a fall in the dollar is both inevitable and necessary to reduce the deficit by making imports dearer and exports cheaper.

Nevertheless, European policymakers complain that the euro has borne a disproportionate share of the dollar's decline. The Australian dollar has actually seen the biggest gain against the dollar among the main currencies (see chart 1). But since January 2002 the euro has risen against the greenback by roughly twice as much as the yen, sterling or the Canadian dollar. The currencies of emerging Asian economies other than China have also moved only a little, while the Mexican peso has even fallen against the dollar. (Mexico is America's third-biggest trading partner.) Overall, the dollar has fallen by a modest 15% against a broad basket of currencies.

There is also a deeper policy rift between Europe and America over a different sort of burden sharing. America accuses the euro area of running overly tight economic policies and hence not pulling its weight in supporting global growth. Europeans, on the other hand, fret that America's lax monetary and fiscal policies, by depressing domestic saving, are perpetuating its current-account deficit. They fear that American policymakers' belief that the dollar and the deficit will adjust smoothly is overly complacent.

Who's winning?

For at least a decade, American treasury secretaries have preached the virtues of a strong dollar. Yet today America is thriving on a weaker dollar. The lower exchange rate is already boosting exports and profits: export volumes rose at an annual rate of 19% in the fourth quarter of 2003, while imports grew by 11%. Moreover, by making manufacturers more competitive, the weaker dollar should create jobs before the presidential election in November.

Better still, there seems little imminent danger that a sliding dollar will cause inflation to surge. The economy has ample spare capacity; inflation is, if anything, currently too low. As yet the weaker dollar has not pushed up import prices. Foreign exporters tend to fix their prices in dollars, and fierce competition has encouraged them to hold these down. Instead, they have trimmed their profit margins. One bizarre result is that some top-of-the-range German cars are now almost 30% cheaper in America than they are in Europe. But there is a limit to how much firms can squeeze profits; eventually a falling dollar will push up prices, so reducing imports.

If the cheaper dollar is benefiting America, is it hurting the euro-area economies? Surveys suggest that European firms are not yet panicking about the strength of the euro. An index of German business confidence tracked by Ifo, a German research institute, has risen to its highest level for three years. However, another survey by the institute found that 90% of larger German manufacturers would have problems exporting at a euro-dollar exchange rate above $1.30.

The current “strength” of the euro (at around $1.25) is often exaggerated. As recently as 1995 the currency (as calculated from a basket of the national currencies that preceded it) was trading much higher, at the equivalent of $1.37. The euro's trade-weighted value today is roughly the same as it was at its launch five years ago. In 2002 the European Central Bank (ECB) examined 16 different studies into the fair value of the euro. Most said it lay in the range $1.10-1.20, which explains why European policymakers have only recently got nervous about the euro's rise.

The ECB needs to worry about the strength of the euro only to the extent that it affects inflation. In January, the average inflation rate in the euro area was 2.0%, just above the central bank's objective of “less than but close to 2%”. In theory, a stronger euro could be beneficial if it helps to hold down inflation and allows the ECB to cut interest rates. But, as in the United States, currency movements appear to have a more muted impact on European inflation than in the past. This is largely because importers have changed their pricing behaviour. They tend to keep their prices fixed in euro terms, thereby enjoying an increase in profit margins as the euro climbs rather than an increase in market share.

If the euro continues to rise, the ECB could intervene in the foreign-exchange market and buy dollars in order to signal that the currency is no longer a one-way bet. But that would probably not succeed unless America were to join in—which currently seems unlikely. If the ECB is really worried about the impact of a rising euro, then its best weapon is to cut interest rates. Most economists, however, do not expect it to act until inflation falls below 2% and there is firmer evidence that the euro's strength is hurting business.

For its part, Japan cannot cut interest rates because they are already at zero. Instead, the Ministry of Finance has been intervening in the foreign-exchange market on an unprecedented scale. After $175 billion-worth of purchases in 2003, it spent another $67 billion in January this year, a monthly record. That has not, however, prevented the dollar from falling to a three-year low of ¥105.2. Now the ministry is seeking more ammunition in its battle to hold down the yen. It has asked for authorisation from parliament to increase the funds available for intervention in 2004 to ¥61 trillion ($580 billion).

These efforts to hold down the yen are annoying European policymakers because it will then require an even bigger rise in the euro to reduce America's current-account deficit. A year ago, when Japan's deflationary economy was still flat on its back, there was a strong case for intervention to hold down the yen. But many economists are now forecasting that Japan's GDP will grow by 2.5% this year, following 2.4% in 2003. As recently as May last year the consensus forecast for both 2003 and 2004 was a mere 0.7%.

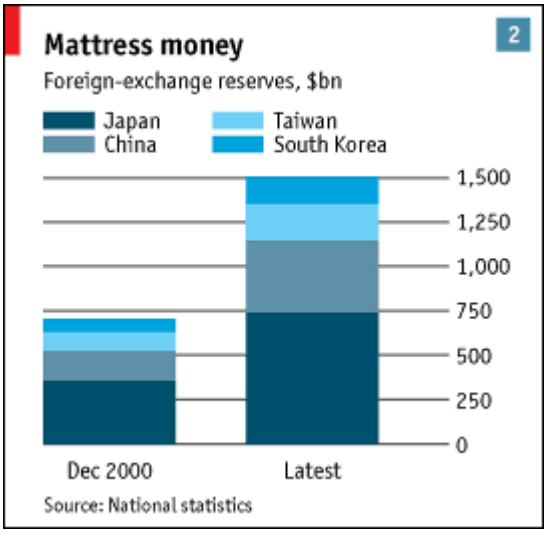
The good news about Japan's economy is increasingly broad. The unemployment rate fell to 4.9% in December from 5.4% last May, and the ratio of job offers to applicants rose to its highest level for more than ten years. In December, Japan's export volume was 13% higher than a year earlier, and the trade surplus was 40% bigger. Even deflation has eased.

Goldman Sachs, an investment bank, argues that a strong yen is less likely to derail Japan's recovery today than it was in the past because firms' output and profits have become less sensitive to swings in the dollar. China is an increasingly important market for exporters, and investments in America (such as car plants) have helped insulate firms from a rise in the yen. Many analysts reckon that Japan's big exporters could cope with a dollar rate of ¥90.

So why is the Japanese government intervening on such a vast scale? One reason may be concern about the possible impact on equities if the yen were to dip below a supposed psychological threshold of ¥100. A relapse in the stockmarket would erode the capital of Japan's shaky banks.

The ball in China's court

But Japan is not the only one trying to resist market forces. The Chinese yuan, the Malaysian ringgit and the Hong Kong dollar are all pegged to the greenback. Other Asian currencies officially float, but their central banks have also been intervening heavily to hold them down. The total reserves of the big four—China, Japan, South Korea and Taiwan—have more than doubled over the past three years (see chart 2), to $1.5 trillion, most of it held in American government securities.



It is hard to judge the correct value for the Chinese yuan, but there are tell-tale signs that it is undervalued. One is China's rapidly rising reserves; another is its large surplus on its “basic balance”—the sum of its current-account surplus and the net inflows of long-term capital, such as foreign direct investment. Its basic balance currently stands at around 4% of GDP.

In a free market the yuan would surely rise, helping to spread the burden of the dollar's adjustment. But the Chinese government's priority is to create new jobs as unprofitable state firms are closed down. For that it needs to maintain the currency's competitiveness. Furthermore, until China's shaky banks are shored up, it would be foolhardy to let its currency float.

Until then, any currency adjustment is likely to be modest. At best there might be a small widening of the yuan's band against the dollar or a shift to peg the yuan to a basket of currencies, but without any significant appreciation. So long as the yuan remains more or less pegged to the dollar, other Asian economies will resist appreciation too.

Stuffing reserves under the mattress is not without cost. The return on American Treasury securities has been poor. There is also a limit to how long this policy can continue. Large inflows of foreign exchange are creating excess liquidity in China. Some economists worry that rapid money growth is fuelling asset-price bubbles (in the property market, for instance) and causing the economy to overheat.

Where does the buck stop?

Most economists expect the dollar to fall further. Taking the average forecast of seven American and European banks, the euro is expected to trade at $1.32 in 12 months' time, and the dollar to be at ¥101. Even if they are right, the buck is unlikely to stop there. For it would still not have fallen by enough to make a significant dent in America's current-account deficit.

The maths behind America's trade deficit is daunting. The gap between merchandise exports and imports is now so large that, according to J.P. Morgan, exports need to grow almost twice as fast as imports merely to keep the trade deficit constant. Yet the dollar is still far from cheap: in real trade-weighted terms it remains close to its 30-year average (see chart 3). If the deficit is to shrink, then America's domestic demand has to grow more slowly than that of its trade partners, or the dollar needs to fall further, or a combination of the two.

Deutsche Bank argues that America does not need to eliminate its current-account deficit. The German bank reckons that it could probably sustain a deficit of around 2.5% of GDP, half its current level. Using the OECD's economic model, the bank first assumes that the dollar falls to $1.45 against the euro by 2005 and then roughly stays there. This would reduce the current-account deficit to a still hefty 3.6% of GDP by 2008. To reduce the deficit to 2.5% of GDP would, according to Deutsche Bank's simulation, require the dollar-euro rate to fall to $1.98 by 2008, supposing that the dollar falls evenly against all currencies and nothing else changes.

But this assumes that all the adjustment has to come through the exchange rate. The current-account deficit basically reflects America's lack of saving, by both households and the government. Not only is the government's budget deficit set to soar to a record $520 billion (almost 5% of GDP) this year, but the personal saving rate fell to only 1.3% of income in December, thanks to rampant consumer borrowing.

Another way to slim its external deficit is for America to save more. Suppose the government were to reduce its budget deficit to 1.5% of GDP in 2008. Deutsche Bank calculates that the dollar would then have to fall to $1.64 against the euro by 2008 in order to reduce the external deficit to 2.5% of GDP. If the Asian currencies continue to cling to the dollar, the euro would have to rise by even more.

This is only a crude simulation; other factors may change at the same time. However, many other economists agree that, even if the American government were to trim its budget deficit (and thus dampen growth in domestic demand), the dollar would need to fall by another 20% in trade-weighted terms in order to achieve a sufficient reduction in America's current-account deficit. To put that figure into context, remember that the dollar fell by over 50% against the D-mark between 1985 and 1987, when America's current-account deficit was smaller (at only 3% of GDP). This time the dollar has fallen from its high point by just over 30% against the euro.

In an ideal world, America would now tighten its monetary and fiscal policies in order to boost saving,

curb domestic spending and reduce imports. This could be offset by looser policy in other countries. But big budget cuts do not happen in election years. So it could take an even bigger fall in the dollar to correct America's current-account deficit.

The problem facing the dollar, therefore, is not that it is too weak, but that it remains too strong. In propping it up, the policies of Asian governments are delaying the necessary adjustment of global imbalances. America is being encouraged to remain profligate for longer. Unlike private investors, Asian central banks care little about the financial return on their dollar reserves. Their sole concern is to keep their exchange rate stable in order to bolster domestic economic growth.

No discipline from bonds

This is distorting financial markets: the dollar remains too high and America's cost of capital is artificially low. Previous falls in the dollar's exchange rate have pushed American bond yields up as foreign investors have demanded a bigger reward to compensate for the increased exchange-rate risk. This devaluation, however, has so far been painless with bond yields staying remarkably low. Ten-year Treasuries, for example, are currently yielding 4.1%, slightly less than the yield on comparable German bonds.

In 2003, Asian central banks financed well over half of both America's current-account deficit and its budget deficit. At their recent pace of intervention, Japan and China could buy enough Treasury bonds this year to more than cover the American government's new borrowing needs. This would allow America to continue borrowing recklessly without the usual warning sign of rising bond yields.

President Clinton's campaign manager, James Carville, once quipped, “I used to think if there was reincarnation, I wanted to come back as the president or the pope...but now I want to come back as the bond market. You can intimidate everyone.” Thanks to the appetite of Asian central banks, however, the bond market has lost much of its bark. It is subsidising rather than punishing American profligacy.

Not only do artificially low bond yields appear to offer false signals that America's budget deficit is no cause for concern, but by holding down mortgage rates (which are linked to bond yields) they are also prolonging an unsustainable boom in consumer spending and borrowing. This benefits America in the short term, but allows even bigger imbalances (in the shape of domestic debt and foreign liabilities) to build up in the long term. To contain these debts will eventually require a far sharper collapse in the dollar, a steeper rise in bond yields, and a harder economic landing. Anyone for tennis?

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Bond markets

Too close to the sun?

Feb 5th 2004 | NEW YORK
From The Economist print edition

Bonds issued by riskier borrowers have soared as investors sought alternatives to American government bonds. But have they flown too high? This article looks at American corporate debt; the next, at emerging-market bonds

WITH a change of just two words, the Federal Reserve has sent the first real shivers through rising parts of America's financial markets, since they touched bottom in late 2002 and early last year. In previous announcements, the Fed had said that it would keep rates on hold for a “considerable period”. Now it says merely that it will be “patient”.

A subtle change, perhaps, and while no one expects America's central bank to put up rates sharply and quickly, markets are starting to think that short-term rates might rise from their 45-year lows a bit sooner than they had expected. A market that has more to lose than most from rising interest rates is one that has also been one of the most effervescent in recent months: the corporate-bond market. It has already dropped a bit since the Fed's announcement. Is this a brief sell-off, or a sign of worse to come?

Having been rattled by the uncertainty about companies' finances following the shenanigans at Enron, WorldCom and the like in 2002, the markets' confidence—and the desire for yield—returned in force. The investment-grade and high-yield (more commonly known as junk) bond markets both had their fastest rally on record last year, which is a little surprising, given investors' fears about how ravaged companies' balance sheets had become.

The extra amount that investment-grade bonds yield compared with Treasuries has fallen by two-thirds from their high. But the prices of junk bonds have risen still more spectacularly. Over the same period, the spread offered on bonds rated Caa (ie, hugely speculative) has fallen from 19 points to five, enabling the most aggressive investors in junk (meaning those willing to buy the dodgiest credits) to turn in fabulous performances, and the investment banks that have been selling so many of them to make billions of dollars in profit.

Companies, especially those with stretched finances, have benefited hugely from the renewed appetite for their debt. Take Nalco an unprofitable company. In November, Nalco was able to issue bonds at 9%, notwithstanding a junk rating of a particularly lowly sort—a yield that could not have been matched by a company with a top-notch junk rating in 2002. No matter: the issue was more than four times oversubscribed and Nalco took advantage of unsatisfied demand by raising another $450m on January 15th on similar terms. Between March and December of last year, the spread of bonds issued by firms with the same rating as Nalco halved, to under five percentage points.

It is not just bond investors that have been falling over themselves to lap up any bond with a sniff of yield; banks have again joined the fray, too. At the end of 2002, with credit scarce and demand for it high, banks were able to push through much tougher lending terms. They started to reduce the maturity of their loans from five years to three and often to one, and to charge more for them. They also raised the price of guarantees to provide funds to companies unable to tap the short-term commercial-paper market. These guarantees had been woefully underpriced since companies typically resorted to them only when they got into trouble.

Banks' new-found toughness did not last long, however: demand for loans has been falling sharply, and they have been keen for business. By the middle of last year, says Meredith Coffey of the Loan Pricing Corporation (LPC), a research firm, the number of companies able to push the length of their loans to five years had jumped from about 15% of the total to 30%. Now the figure is higher still, the average number of banks participating in syndicated loans has jumped sharply, and all thoughts of charging a decent price for a loan have evaporated.

As with the bond market, the generosity of bankers has been a boon for troubled companies. Last year, according to the LPC, at least a dozen companies refinanced far more cheaply loans which they had taken out only recently. The car parts division of TRW, a big conglomerate, is one. This was spun off in a leveraged buy-out early last year. As a business, it leaves much to be desired, since it relies on a limited number of buyers and had a not-especially-good junk rating. Yet in July, only months after being spun off, it refinanced $1.1 billion in debt, lowering the interest charge from four percentage points over LIBOR (the benchmark rate at which the best banks lend to one another) to three, saving $11m in annual interest costs. By December, the market had improved enough to enable the company to refinance again, this time lopping another half point off its interest costs, and saving another $5m a year in interest.

To be sure, there has been a sharp fall in the risks run by lenders of any sort and hence the returns they require. For one thing, default rates for junk have dropped to 5% of outstanding bonds over the past 12 months compared with their peak of 23% in November 2002. Given the strong economy, defaults should drop further. But these are a lagging indicator of risk. A better measure is to look at forward-looking market indicators. These, too, have improved. Equity prices have risen for many companies, thus reducing their leverage, as measured by the price of their equity compared with their outstanding debts. The latter have fallen somewhat, too, because companies have been using record profits to pay off some debt.

Default's an option

More important has been a fall in the uncertainty about profits and share values. Bond investors hate an uncertain profit outlook because it means they are less likely to get their money back. But corporate profits surged 23% last year, helping to make investors far more comfortable. A good way of measuring this is to look at the options market, where prices have fallen dramatically. A commonly used measure is the VIX index of implied volatility (roughly, how much shares are likely to move around), which has fallen from a high of over 40% in October 2002, to a low of 14% last month—its lowest level since 1996. Because of the fall in both leverage and volatility, Moody's KMV, a subsidiary of the big ratings agency, predicts that the likelihood of an average company defaulting over the next year has fallen to just over 1%—a dramatic fall from two years ago.

Will risks rise when interest rates do? They have already done so a bit: the VIX has risen to just shy of 18%. But if the overall fall in volatility is the result of bumper company profits and enthusiasm for shares, it may rise higher still. Shares are still expensive by most historic yardsticks, and the fall in volatility sits ill with the wide range of year-end targets for the S&P 500 index for the end of the year.

Moreover, cheaper borrowing costs have (among other things, such as low taxes) clearly flattered profits, especially those at financial firms, which account for a third of all profits. And though companies have

paid off some debt, they have not paid off as much as some might like to believe. In part, this is why the rating agencies are still downgrading more companies, with the exception of financial firms, than they upgrade. The recent surge in mergers and acquisitions, some of it financed with debt, suggests that companies are again more concerned with boosting returns than with the state of their balance sheets. All of this is bad news for bondholders.

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Emerging-market bonds

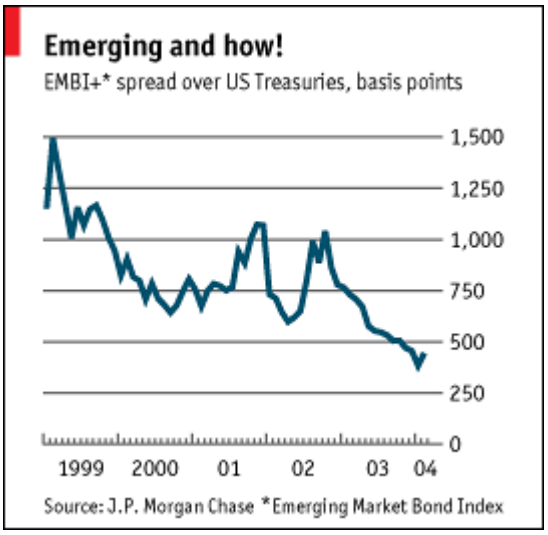
Priced for perfection

Feb 5th 2004 | WASHINGTON, DC
From The Economist print edition

Invest in emerging-market bonds at your peril

JUST like Victorian vicars preaching temperance, it is always easy for those who warn of the intoxicating perils of investing in emerging markets to find sad victims, shadows of their former selves, who have fallen prey to the temptation of high-yielding paper. The greatest victims today are holders of bonds issued by the Republic of Argentina. Since late 2001 Argentina has been in default on these, to the tune now of $100 billion. That is the largest-ever unpaid debt, though the country may soon beat its own record. For in coming months, a nasty game of blackmail with the International Monetary Fund may end with Argentina doing the unspeakable: defaulting on $30 billion or so of debts to the Fund and other multilateral institutions.

But who listens to such admonitions? While Argentina proposes to keep nine-tenths of the money it owes to bondholders, the market for bonds issued by its neighbour, Brazil, has been on fire. Brazil's bonds account for about one-fifth of J.P. Morgan's EMBI+ index of emerging-market bonds. Anyone lucky enough to have piled into Brazil's dollar debt in October 2002, the month that Luiz Inácio Lula da Silva was elected president, at a spread of 23 percentage points over American Treasury bonds, would last month have been able to sell it at a spread of about four points. They have benefited, too, from the fall in Treasury yields. Total returns on Brazilian bonds from October 2002 to the end of last year were an intoxicating 124%.



Brazil had its own story to tell. Mr da Silva was a leftist campaigner who scared the markets. Yet when he took office in January 2003, he quickly made clear that he intended to pay every penny of Brazil's debt and was prepared to put the economy through the wringer to do it. His new finance minister delivered a “credibility shock” to the markets by voluntarily raising the target for the primary budget surplus (ie, before interest payments) from the 3.75% of GDP mandated by the IMF to 4.25%. Inflation came down fast, the currency stabilised, and the Brazilian economy may this year grow some 3-4%.

Brazil's bonds are exceptional only by degree, for those of almost every other emerging market have been blessed of late. Last year, emerging-market bonds returned 28%. Since October 2002, the EMBI+ index has seen spreads tighten against American Treasuries by around six percentage points. With average emerging-market spreads now four points above Treasuries, they are about as low as they have ever been—only a tiny bit higher, indeed, than just before the Asian crisis in the summer of 1997.

A wealth of positive news has driven down spreads: higher commodity prices for developing-country exporters, a buoyant world economy pulled along by a recovering America, and less-profligate governments—all against the benign backdrop of low worldwide interest rates. As a result, according to the Institute of International Finance (IIF), net non-bank private-sector lending to emerging markets (mostly in the form of bonds) hit a five-year high last year, of $45 billion. Investors in the rich world have shown a particular taste for emerging-market funds.

Other “crossover” investors (ie, those not used to thinking of emerging bonds as a suitable investment) are jumping in. Investment bankers talk of a “new asset class”—ie, something previously dodgy that is now eminently respectable. They point to a virtuous circle: as the credit quality of more issuers has climbed, so has the pool of potential investors. That is because many mutual funds, pension funds and

insurers are forbidden from buying paper that does not carry an investment grade.

Developing countries are understandably keen to take advantage of this enthusiasm, and issued $13.7 billion of bonds last month, according to Thomson Financial. This is the highest monthly figure in six years. Mexico, Turkey (twice), Poland, Brazil, Hungary and Venezuela: all issued more than $1 billion of foreign-currency bonds. More is probably on the way. After all, the Federal Reserve recently gave notice that it may raise short-term interest rates sooner than previously thought.

So the current bond market has been a playground for emerging-market issuers, but what on earth is now in it for investors? With interest rates much more likely to rise than to fall, and spreads near record lows, it seems reasonable to think that investors will be more discriminating. Perhaps Brazil and Turkey, another country whose government has shown admirable restraint of late, justify tight spreads. But why should the bonds of Ukraine, hardly a byword for stability, trade at just three percentage points over Treasuries? Tight spreads for Ecuador, Venezuela and Peru are equally hard to explain.

What could pop the bubble? The IIF mentions some possibilities: backsliding by governments, rising interest rates, a slowdown in the American recovery. Emerging markets are, as a senior American official recently put it, priced for perfection. The upside, in other words, is limited; the downside isn't.

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Microcredit in India

Shuffling off the buffalo

Feb 5th 2004 | MUMBAI
From The Economist print edition

High finance benefits the poor

FOR the poorest of India's poor, the securitisation of financial assets might seem arcane, remote and irrelevant. Yet a new approach to microcredit—the lending of tiny amounts of money to people with even tinier assets—is applying the technique to village life.

ICICI, an Indian bank, has just completed two such deals in the state of Andhra Pradesh. In the larger one, it has paid $4.3m for a portfolio of 42,500 loans from SHARE, a microfinancier. ICICI's Brahmanand Hegde concedes this differs from the more familiar process of securitising car-loans or home mortgages in a number of important ways.

First, SHARE will be responsible for collecting the loans. Nor will the securities be “asset-backed”, as is usually the case with car and house financing. The buffaloes, handcarts and other small-business wherewithals that the loans were spent on will remain unencumbered. ICICI will have as collateral instead a “first loss” guarantee of an 8% deposit of the total from the Grameen Foundation, an American charity devoted to propagating microcredit.

Third, there is, as yet, no secondary market for the securities, though ICICI is talking to Crisil, a credit-rating agency, about the prospects for its rating the paper, and is hoping that over time other banks will enter the market too.

All the main parties are patting themselves on the back. ICICI manages to reach borrowers it could never otherwise approach, and palm off most of the administration on to SHARE. This helps it meet a government-set target of directing 40% of its total lending to “priority sectors”, including 18% to farmers. Grameen sees its cash deposit multiply twelvefold on its way to the poverty-stricken borrower.

SHARE's boss, Udaia Kumar, seems chirpiest of them all. He secures a new source of funds, off SHARE's balance sheet, at a cost that is three to four percentage points cheaper than it pays for a bank loan. This will help him meet his aim of increasing his number of borrowers from under 300,000 now to 1m, a target that will, he reckons, require $62.5m in new funds. He says that 99% of his clients have never tried to run a business before, and are uneducated and illiterate. Their children may have better luck.

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American pensions

Deeper into the red

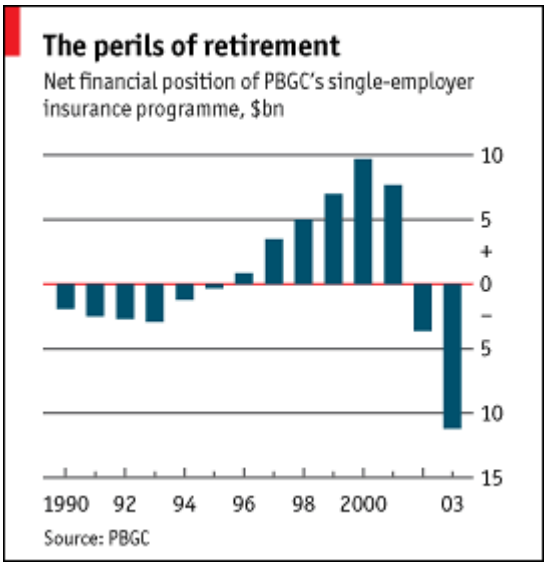
Feb 5th 2004
From The Economist print edition

America's guarantor of corporate pensions is in trouble

THE gaping $521 billion hole in the Bush administration's proposed budget, released on February 2nd, is not a pretty sight. But as an estimate of America's future financial health it may be too rosy. Missing from the picture, among sundry other items, are the massive costs shouldered by the Pension Benefit Guaranty Corporation (PBGC), the quasi-governmental agency that insures America's private, defined-benefit company pension plans. Last year, the insurer fell $7.6 billion deeper into the red, to a record $11.2 billion. The PBGC reckons that another $85 billion in pension deficits sit on the books of America's wobbliest companies. Corporate America as a whole has a deficit of some $350 billion. Some of this will surely fall on the insurer's already-strained back.

To be fair, the American government does not technically stand behind the PBGC in the way it does, say, bank deposits, which are directly insured. But nobody believes that the PBGC, which insures the pensions of 44m (voting) Americans, would be allowed to collapse.

So Congress has sprung into action. On January 28th, the Senate passed an $80 billion pension-relief bill that lets firms use (temporarily, of course), a higher interest rate in their pension calculations—a move that shrinks the size of pension liabilities and thus reduces the amount of cash that companies need to put in. This follows the expiration of a similar, supposedly short-term fix in December.



The Senate also added $16 billion of “special” help for companies with severe pension shortfalls by waiving (again, temporarily) the accelerated contributions normally required of pension plans so deeply in the red. The primary recipients of this generosity are steel and airline companies, both of which have muscular unions and a powerful lobbying voice.

The bill's supporters argue that, without such relief, financially shaky firms might go bust, pushing their huge pension deficits on to an overstretched PBGC. Time, they say, is key: the economy will continue to revive, stockmarkets will bounce ever-higher, and interest rates will rise.

But critics—among them, the bosses of the Treasury, Labour and Commerce departments, who are urging George Bush to veto the $16 billion bail-out—say that weakening pension-funding requirements only delays the problem. Indeed, it probably makes it worse, because it lets irresponsible firms continue to make pension promises that the PBGC will probably end up having to honour.

Many, even some within the PBGC, believe that what fundamentally ails America's defined-benefit pension system is not an unlucky confluence of events (the bursting of the stockmarket bubble and low interest rates, to name the biggest problems), but deep structural flaws.

For one thing, companies' minimum funding requirements are weak and too often weakened further thanks to repeated congressional “temporary” fixes. Moreover, pension accounting is so convoluted that determining whether or not a firm's pension fund is really solvent is well nigh impossible, which in turn makes it very hard to hold responsible those in charge of the scheme. Worse, accounting oddities mean that there is a big incentive for firms to invest in assets that flatter their bottom lines, but at the expense

of long-term returns. Finally, there are the PBGC premiums, which are generally too low because, although loosely linked to the level of a firm's pension underfunding, they fail to take account of the firm's financial health or its investment policies.

But at the root of the underfunding problem is the mismatch between corporate pension plans' heavy investment in equities—almost 60% of plan assets in 2002, according to Greenwich Associates, a consultancy—and their bond-like obligations. Part of the answer, many believe, is to require financially shaky companies to match their pension obligations with bonds of similar maturity. Indeed, on January 29th the PBGC itself announced that it would shift more of its assets from equities to bonds.

Critics of this approach complain that investing in higher-returning stocks can reduce the cost of pension obligations in the long run. But that, says Zvi Bodie, a finance professor at Boston University, does not take into account the higher riskiness of stocks. “If you factor in the cost of eliminating this risk there are no cost savings,” says Mr Bodie. “There is no free lunch”.

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Italian financial regulation

Not so Super Consob

Feb 5th 2004
From The Economist print edition

Italy's watered-down financial reforms

EPA

Fazio goes to the mattresses

GIULIO TREMONTI, Italy's finance minister, has campaigned tirelessly over recent weeks to dethrone his rival, Antonio Fazio, by stripping the governor of the Bank of Italy of most of his regulatory powers. But on February 3rd the Italian cabinet approved a proposed law to reform its supervisory regime that takes away far fewer of the bank's powers than earlier drafts had suggested. The autocratic central-bank chief was left bruised and battered, but still standing. This is a shame, but understandable: Mr Fazio is nothing if not tough.

The government is keen to rush through a new law to reform financial regulation in Italy because of the collapse of Parmalat, a dairy group, which took with it the savings of tens of thousands of investors who held the company's bonds. Parmalat's collapse also destabilised Italy's fragile banking sector and left the reputation of the country as a wise place in which to invest more than a little dented. Mr Tremonti had criticised Mr Fazio for being asleep on the job. The Bank, he said, failed to spot the massive accounting fraud at Parmalat. Mr Fazio countered that the central bank is not responsible for how companies report their finances.

The reforms will go some way toward helping to restore confidence in Italian capital markets, but they do not go far enough. According to the draft law a new regulator, provisionally (and hopefully) called the Authority for the Protection of Savings, will replace Consob, the securities-market watchdog. Dubbed Super Consob, the new regulator will certainly be more powerful than its predecessor. It will take over the supervision of debt issuance from the Bank of Italy, and it will get some of the bank's staff and property. It will also have more teeth. The maximum prison sentence for market abuse will be 12 years, and there will be a new minimum fine of €500,000 ($625,000) for financial fraud.

Yet the Super Consob's powers will fall far short of those of, say, Britain's Financial Services Authority or Germany's BaFin, which both put supervision of all markets under one roof. Italy's reforms do not merge its five financial regulators into one. Isvap will continue to look after the insurance business and Covip will still deal with pension funds.

Indeed, the most striking thing about the reforms is how much power the central bank (and Mr Fazio) has managed to retain. It will share control—an apt word in Italy's case—of competition in the banking sector with the antitrust authority, rather than simply handing it over to the latter, as Mr Tremonti thought it should. The Bank of Italy will also keep its oversight of the inter-bank and government-bond markets. And its boss will continue to be appointed for life, rather than for the seven-year term proposed by Mr Tremonti.

It is unclear when the reforms will become law—or whether they will be watered down further. Both houses of parliament still need to approve the bill. Though his political allies in the Northern League are unhappy with the current watered-down compromise, the others in the coalition led by the prime minister, Silvio Berlusconi, will also want their say. This being Italy, the chances of their choosing even stricter regulation are slim.

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Economics focus

Sickness or symptom?

Feb 5th 2004
From The Economist print edition

Child labour is reviled. There is much debate as to how it can be reduced

OF ALL the alleged sins of globalisation, child labour has been among the most scorned. Few people in rich countries (though not all, see article) like to think that their cheap clothes, toys and handbags have been made by workers who ought to be in schools or playgrounds. This dismay is usually genuine, but it has also been exploited by anti-globalisation activists to popularise their cause. Anti-globalisers have been joined recently by some of America's Democratic presidential candidates, who have cited child labour as a reason why America should reconsider its free-trade agreements with poor countries. The idea that these countries might be exploiting children is more disturbing than the highly debatable claim that poor labour standards for adults in the third world are unfair. Moral indignation has been used to advocate wrong-headed economic policies.

One of the more credible critics of child labour, and the leader in the fight to enforce bans on the practice, has been the International Labour Organisation (ILO), a United Nations agency. Until recently, its argument has also rested mostly on moral grounds. Although it seems wrong for children to toil for others' economic gain, one in six of the world's children between the ages of 5 and 17 work—and the proportion is higher in the poorer parts of Asia and Africa. In a new report*, the ILO has bolstered its moral case with an economic one, arguing that child labour is economically unjustified as well.

On the ILO's analysis, the cost of ending child labour, by creating enough school places and replacing the lost income that children provide to their families, would be around $760 billion over the next 20 years, only about 7% of America's annual GDP. But the benefits, says the ILO, might be as much as seven times as large, when the gains of increased human capital, better health and fewer lives lost due to work accidents are considered. The agency seems to have felt the need to buttress its moral case with this economic analysis because most mainstream economists have long argued (as does this newspaper) that using child labour is the best of a set of very bad choices.

Child labour, of course, is as old as human history. Until relatively recently, parents viewed children as economically useful and, especially in farm-based economies, had them milking cows or sowing seeds as soon as they were old enough to do so. Most people in rich countries, probably feel less troubled about children working on farms than in factories. Child labour was mostly outlawed in now-rich countries more than a century ago.

Should rich countries attempt to enforce a ban in poorer countries as well? On the face of it, no. The fact that parents choose to send their children to work suggests, at the very least, that the alternatives are even less attractive—not a pleasant suburban school, but the grinding toil of subsistence farming, joining a militia or prostitution. In economic terms, child labour is merely the symptom of that greater disease called poverty.

Experience in rich countries seems to back that up. Child labour was more common everywhere in the 19th century when today's rich countries were poorer. Political pressures to end it only became reality, economists argue, when families could afford to forgo the income provided by their working children.

Cause or effect?

In recent years, a few economists, like the ILO, have questioned this argument. Perhaps, they suggest, some countries keep themselves poor by allowing child labour. On this view, poverty is not the cause but the result of child labour. There are two ways in which it might be. First, starting work at the age of 12 means that children miss out on education and the skills that might have landed them better jobs in the

future. Thus, allowing child labour prevents countries from investing in what economists call human capital, keeping their workers mired in low-skilled jobs. Second, employing children can depress wages for adults. On this view (which was also once used to keep women out of the workforce), the more children that work, the fewer and worse-paid are the jobs for adults.

Until recently, much of this debate was theoretical. But a new paper** from Eric Edmonds, a professor at Dartmouth College in America, seems to rebut these claims—and to support the conventional wisdom that poverty, not child labour, is the real problem. Mr Edmonds scrutinises data between 1993 and 1997 for over 3,000 families in Vietnam, a country that has traditionally put more children to work than most. Over this period, Vietnam's GDP per head grew at an average rate of 6.5% a year, thanks to a series of reforms introduced after the end of the cold war. Strikingly, the number of children in the workforce fell by 28%. By looking at the behaviour of individual households, Mr Edmonds estimates that families' rising wealth was responsible for four-fifths of this fall.

Perhaps the ILO is right that ending child labour would cost $760 billion, but that as children are better educated they would eventually improve the lot of everyone in the economy—though where the money would come from, and how to ensure that it would be well spent, is unclear. Arguably, however, the ILO and others rightly concerned about child labour are looking at the wrong target. It will start to disappear, and faster, if poor countries pursue general policies that help them to grow more quickly, such as cutting tariffs and opening up more to foreign investment. Rather than forever sermonising, rich countries could do more to help eradicate child labour by themselves dropping trade barriers to imports from poor countries.

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*"Investing in Every Child: An economic study of the costs and benefits of eliminating child labour". International Labour Organisation, December 2003

**"Does Child Labour Decline with Improving Economic Status?" Working Paper No 10134, December 2003. http://www.nber.org/papers/w10134

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About sponsorship

The Marjorie Deane internship

Feb 5th 2004
From The Economist print edition

Applications are invited for the 2004 Marjorie Deane internship. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a would-be or junior journalist under 28, who will spend three months of the summer at *The Economist*, writing about finance. Applicants should send a letter introducing themselves, with an original article of about 1,000 words intended for the finance and economics section. Applications must reach us by April 5th, and should be posted to: The Business Affairs Editor (Deane internship), *The Economist*, 25 St James's Street, London SW1A 1HG

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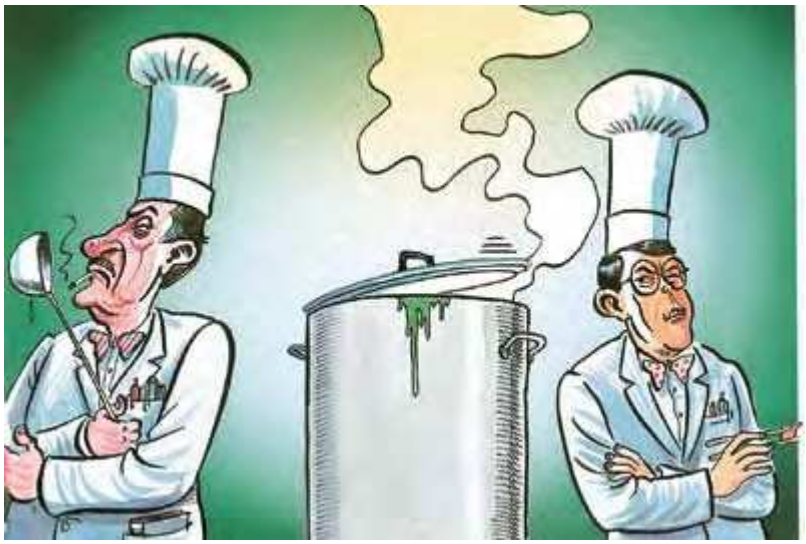
About sponsorship

Fusion power

Bouillabaisse sushi

Feb 5th 2004
From The Economist print edition



A site will soon be chosen for a new international fusion reactor. This is a pity

IF AVANT-GARDE cuisine is any guide, Japanese-French fusion does not work all that well. And the interminable discussions over the International Thermonuclear Experimental Reactor (ITER) suggest that what is true of cooking is true of physics. Japan and France (along with much of the rest of Europe, under the banner of an organisation called Euratom) are supposed to be joining America, China, Russia and South Korea in a project called ITER, which aims to build a fusion reactor.

Such a reactor would generate power by merging the nuclei of hydrogen atoms, and thus liberating the so-called binding energy whose absence, paradoxically, helps to hold complicated atomic nuclei together. This is a process similar to the one that powers the sun. Moreover, unlike previous attempts to do so, ITER would produce more energy than it consumed in getting the hydrogen nuclei hot enough to fuse in the first place.

The current imbroglio is over who gets the reactor, and with it the economic boost of a multibillion-dollar construction project. The two sites remaining in the competition are Cadarache in France and Rokkasho in Japan.

America is siding with Japan, while the French have the backing of the Chinese and the Russians. The South Koreans seem to be sitting on the fence, although leaning—if that is not stretching the metaphor too far—towards Europe. Meetings of ministers in December failed to resolve the issue (indeed, Canada withdrew from the project entirely) and the date for a decision keeps getting pushed back. According to spokesmen from the Japanese embassy in London, early March is now the target.

It is unusual for ministers to be discussing scientific projects of this nature, even ones as expensive as ITER. But the reason for all the attention is not that politicians have suddenly developed a particular interest in physics, but that the question of where to put ITER has become—so observers believe—another proxy for the debate over the war on Iraq. America is commonly thought to be supporting Rokkasho in return for Japan's support in Iraq. Meanwhile, the Russians and Chinese may be trying to spite the Americans by siding with the French. Nor are the French helping the situation by threatening (unlike the Japanese) to pull out of the project entirely if they do not get their way.

One ludicrous compromise would place the reactor in Japan and the data and control centre in France, or vice versa. Such gerrymandering recalls the worst of the International Space Station, a collaborative effort which is a scientific boondoggle, and contrasts badly with collaborations such as CERN, the European centre for particle physics, which is a model for international co-operation on big science projects. So, given ITER's price tag (about $5 billion to build, and another $5 billion in running costs for a 20-year operational lifespan and a ten-year decommissioning period), it might not be a bad outcome if the whole thing did go belly up. Although visionaries have long been lured to the idea of fusion because the fuel, being a constituent of water, is unlikely ever to run out, the economics of the process are dubious.

Boon or boondoggle?

Sceptics (including this newspaper) have pointed out that workable fusion power has seemed perpetually 30 years away since the first experiments were done in the 1950s. Even if the 30-year horizon were actually true on this occasion, the discount rate over three decades, and the opportunity cost of all those billions, would probably make it uneconomic. Nor is the world in obvious need of another way to generate electricity.

There are, of course, arguments on the other side. On the 30-year-horizon question Robert Goldston, the head of the Princeton Plasma Physics Laboratory (PPPL), America's premier fusion laboratory, points out that, although a forecast made in 1980 that an ITER-like project would be finished by now has obviously not come true, that projection relied on America's fusion budget increasing three-fold. Instead, he says, the budget was slashed by a factor of three.

In addition, Gia Tuong Hoang and Jean Jacquinot of Euratom point out in an article in the January issue of *Physics World* that the performance of fusion reactors like those at PPPL and ITER has been doubling every 1.8 years. This, they observe, beats Moore's law, the famous observation that the number of transistors on a computer chip doubles every two years.

On the face of it, that sounds impressive. But even if this trend continues, it will take, according to a report compiled last year by Britain's Parliamentary Office of Science and Technology, until 2043 for fusion to become commercially viable. This forecast is even worse than the traditional 30-year horizon. A doubling every 1.8 years would lead to something like a 4m-fold improvement in performance over four decades. That sounds impressive but, in fact, it shows just how primitive existing fusion technology is. And the analogy with Moore's law is specious for another reason. Even the most primitive computer chips were useful, and found a market. Commercially, fusion is just money down the drain until a reactor that is powerful and reliable enough can be built.

And so fusion advocates are reduced to the last refuge of the desperate engineer—spin-offs. No doubt these would come. Reactors of the ITER design, known as tokamaks (from the Russian for “toroidal magnetic chamber”), look like giant, hollow doughnuts. They work by heating special isotopes of hydrogen contained in the hollow of the doughnut to the point where the electrons and atomic nuclei in the gas part company to create an electrically conducting mixture called a plasma. Further heating speeds the nuclei up to the point where, if they collide, they merge and release the binding energy that will eventually, so the plan goes, be harnessed to make electricity.

Some spin-offs may come from a better understanding of high-temperature plasmas, though they are hard to predict. More plausible spin-offs would be in the field of superconductivity. The electromagnets needed to “confine” the hydrogen while it is heated to fusion temperatures will rely on superconducting wire to feed electricity to them. Superconductivity (which employs a combination of special materials and low temperatures to achieve resistance-free electrical transmission) is another “nearly” technology which has been promising more than it has delivered for many decades. But it is a lot more “nearly” than fusion, and a concerted, technically demanding push in this area might, just, bring it to the point where it could break out of the specialist applications to which it is now confined and contribute to, say, long-distance power transmission.

Whether these spin-offs would justify the price-tag, though, is questionable. If they are worth pursuing, it would surely be better to invest in projects focused on them, rather than hoping they will magically emerge from something else. All in all, ITER seems more boondoggle than boon. Governments should spend their research money on other things.

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About sponsorship

Cosmology

Things fall apart

Feb 5th 2004
From The Economist print edition

What if the dark energy and dark matter essential to modern explanations of the universe don't really exist?

IT WAS beautiful, complex and wrong. In 150AD, Ptolemy of Alexandria published his theory of epicycles—the idea that the moon, the sun and the planets moved in circles which were moving in circles which were moving in circles around the Earth. This theory explained the motion of celestial objects to an astonishing degree of precision. It was, however, what computer programmers call a kludge: a dirty, inelegant solution. Some 1,500 years later, Johannes Kepler, a German astronomer, replaced the whole complex edifice with three simple laws.

Some people think modern astronomy is based on a kludge similar to Ptolemy's. At the moment, the received wisdom is that the obvious stuff in the universe—stars, planets, gas clouds and so on—is actually only 4% of its total content. About another quarter is so-called cold, dark matter, which is made of different particles from the familiar sort of matter, and can interact with the latter only via gravity. The remaining 70% is even stranger. It is known as dark energy, and acts to push the universe apart. However, the existence of cold, dark matter and dark energy has to be inferred from their effects on the visible, familiar stuff. If something else is actually causing those effects, the whole theoretical edifice would come crashing down.

According to a paper just published in the *Monthly Notices of the Royal Astronomical Society* by Tom Shanks and his colleagues at the University of Durham, in England, that might be about to happen. Many of the inferences about dark matter and dark energy come from detailed observations of the cosmic microwave background (CMB). This is radiation that pervades space, and is the earliest remnant of the Big Bang which is thought to have started it all. Small irregularities in the CMB have been used to deduce what the early universe looked like, and thus how much cold, dark matter and dark energy there is around.

Dr Shanks thinks these irregularities may have been misinterpreted. He and his colleagues have been analysing data on the CMB that were collected by WMAP, a satellite launched in 2001 by NASA, America's space agency. They have compared these data with those from telescopic surveys of galaxy clusters, and have found correlations between the two which, they say, indicate that the clusters are adding to the energy of the CMB by a process called inverse Compton scattering, in which hot gas boosts the energy of the microwaves. That, they say, might be enough to explain the irregularities without resorting to ghostly dark matter and energy.

Dr Shanks is not the only person questioning the status quo. In a pair of papers published in a December issue of *Astronomy and Astrophysics*, Sebastien Vauclair of the Astrophysics Laboratory of the Midi-Pyrénées, in Toulouse, and his colleagues also report the use of galaxy clusters to question the existence of dark energy. But their method uses the clusters in a completely different way from Dr Shanks, and thus opens a second flank against the conventional wisdom.

Cosmological theory says that the relationship between the mass of a galaxy cluster and its age is a test of the value of the “density parameter” of the universe. The density parameter is, in turn, a measure of just how much normal matter, dark matter and dark energy there is. But because the mass of a cluster is difficult to measure directly, astronomers have to infer it from computer models which tell them how the temperature of the gas in a cluster depends on that cluster's mass.

Even measuring the temperature of a cluster is difficult, though. What is easy to measure is its luminosity. And that should be enough, since luminosity and temperature are related. All you need to know are the details of the relationship, and by measuring luminosity you can backtrack to temperature

and then to mass.

That has been done for nearby clusters, but not for distant ones which, because of the time light has taken to travel from them to Earth, provide a snapshot of earlier times. So Dr Vauclair and his colleagues used XMM-*Newton*, a European X-ray-observation satellite that was launched in 1999, to measure the X-ray luminosities and the temperatures of eight distant clusters of galaxies. They then compared the results with those from closer (and therefore apparently older) clusters.

The upshot was that the relationship between mass and age did not match the predictions of conventional theory. It did, however, match an alternative model with a much higher density of "ordinary" matter in it.

That does not mean conventional theory is yet dead. The *Newton* observations are at the limits of accuracy, so a mistake could have crept in. Or it could be that astronomers have misunderstood how galaxy clusters evolve. Changing that understanding would be uncomfortable, but not nearly as uncomfortable as throwing out cold, dark matter and dark energy.

On the other hand, a universe that requires three completely different sorts of stuff to explain its essence does have a whiff of epicycles about it. As Albert Einstein supposedly said, "Physics should be made as simple as possible, but not simpler." Put Dr Shanks's and Dr Vauclair's observations together, and one cannot help but wonder whether Ptolemy might soon have some company in the annals of convoluted, discarded theories.

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Nuclear physics

Elements of style

Feb 5th 2004
From The Economist print edition

A Russian-American collaboration has created two new chemical elements

ALCHEMY, the effort to transmute base metals into gold, has fallen into disrepute of late. But even if they have given up on gold, physicists have not stopped trying to synthesise new elements. And, it seems, a team based partly in Russia's Joint Institute for Nuclear Research in Dubna, north of Moscow, and partly in America's Lawrence Livermore National Laboratory, in California, has just succeeded in adding a pair of elements to the periodic table.

In the February 2nd issue of *Physical Review C*, Yuri Oganessian and his colleagues describe the properties of elements 113 and 115, which are saddled with the unwieldy sobriquets of ununtrium and ununpentium respectively. The numbers, like the names, refer to the number of protons in the atomic nucleus. Hydrogen, for example, has only one proton, while uranium, the heaviest naturally occurring element, has 92.

If the International Union of Pure and Applied Chemistry (IUPAC), the governing body of this sort of thing, confirms the team's discovery, and its priority, Dr Oganessian and his colleagues will get the right to rename the new elements with more memorable monikers. And if they, in turn, follow recent convention, those names will honour prominent physicists, chemists or laboratories.

IUPAC has been right to show caution in the past, as creating new heavy elements is quite tricky, and still as much a matter of artistry as science. Indeed, like the alchemy of old, the field is not a stranger to outright fraud. Two years ago Victor Ninov, a researcher at the rival Lawrence Berkeley National Laboratory, also in California, was fired after having been found to have fabricated evidence of element 118.

Dr Oganessian has already staked claims back in 1999 to elements 112 and 114, which have yet to be approved. Joshua Patin, an American researcher on the team, says that the reason for this is that no other group yet has the capabilities of the Dubna-Livermore collaboration. In order for IUPAC to confirm a discovery, at least two laboratories must make the same element independently, and they must also observe it to decay in the same way. Such confirmation is the only way to be sure that a discovery does not turn out to be fool's gold.

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Influenza

Crystal clear?

Feb 5th 2004
From The Economist print edition

Some old samples cast light on a modern fear

THE outbreak of avian influenza currently sweeping the poultry flocks of South-East Asia has killed but a handful of people, who seem to have caught it directly from birds. Lurking in the back of everyone's mind, however, is the fear that a strain of the virus that can pass directly from person to person might evolve. That could result in an epidemic.

The key step in the evolution of such a strain would be the emergence of a protein that allowed the virus to bind easily to human cells, in order to infect them. By a fortuitous coincidence, the analysis of a previous case of this happening has just been published in *Science*.

Sir John Skehel, of the National Institute for Medical Research, in London, and his colleagues, have been working on samples from victims of the influenza pandemic of 1918-19, which killed 20m-50m people around the world. The victims in question lived in Alaska, and the cold preserved their bodies well enough for pieces of the virus's genetic material (though not whole viruses) to survive. Researchers studying these samples have concluded that the 1918 virus had a lot of bird-flu influence in it. The latest paper is an analysis of the virus's haemagglutinin, the protein by which all flu viruses attach themselves to cells prior to infecting them.

Binding depends on a particular part of the haemagglutinin molecule being the right shape to fit with a cell-surface molecule called sialyloligosaccharide. The latter varies between species, so the haemagglutinin binding site has to vary, too. But the researchers' X-ray crystallography showed that in the case of the 1918 virus the haemagglutinin adapted to human sialyloligosaccharide in a different way from the adaptations in subsequent pandemics. That suggests jumping the species barrier from birds to people is both an easier and a more subtle process than was realised.

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The Richard Casement internship

Feb 5th 2004
From The Economist print edition

We invite applications for the 2004 Richard Casement internship. This is for a would-be journalist aged 25 or under to spend three months of the summer working in London on the newspaper, writing about science and technology. Our aim is more to discover writing talent in a science student than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words which they think would be suitable for publication in the Science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. Applications must reach us by February 20th. They should be sent by e-mail to casement@economist.com

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The future of Japan

Happiness is no laughing matter

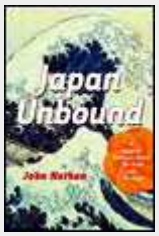
Feb 5th 2004
From The Economist print edition

Magnum

Japan is going through a complex national identity crisis. That may be no bad thing, says a new book by an American academic Japanologist

THE economy is stalled, but the society is in motion. That is John Nathan's own summary of his new book, and it fits the bill admirably. Japan is a difficult country to report on and analyse because things do not change in big, noticeable ways, flagged by set-piece events and announcements, as they often do elsewhere. They change in an incremental process, generally of small steps but which, over time, can add up to big movements. And just such a big movement seems to be taking place.

Japan Unbound: A Volatile Nation's Quest for Pride and Purpose
By John Nathan



Houghton Mifflin; 271 pages; $25

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Mr Nathan, a professor of Japanese cultural studies at the University of California at Santa Barbara, has been observing Japan since the 1960s. Whereas most people look at economic data or the comings and goings of prime ministers, he is more interested in schools, novels, *manga* comic books, and the minds of young entrepreneurs and maverick local politicians. In particular, his focus is on whether Japan's famously cohesive, conformist society may be fracturing under the strain of economic stagnation, and on how such strains have been affecting the country's sense of purpose and of national identity.

Fractures are what he looks for and fractures are what he finds. On balance, they are neither obviously dangerous nor obviously positive, but they are, as he says, signs of motion which could, in time, lead in unpredictable directions. The most worrying fractures he writes about are in the schools, where violence and truancy have risen remarkably. Old Japan hands shrug wearily at such things, for worries about bullying have long existed but have never really seemed terribly serious. Now, though, Mr Nathan's numbers do make the situation look grave.

Since 1998, youths aged between 14 and 19 have been involved in 50% of all arrests for felonies, including murder. In the first six months of 2000, he says, juveniles (including even younger ones) committed a record 532 killings. In the first 11 months of 2001, juvenile crime increased by 12.5% compared with the previous year, to 920,000 incidents, a post-war high. Truancy is also on the up. A

conservative estimate is that 150,000 children between the ages of six and 17 are permanently absent from school; others, says Mr Nathan, assert that the true number is 350,000 children, or 5% of the student population.

Such trends appear to be symptoms of two related phenomena: a widespread feeling of disillusionment, alienation, uncertainty or plain anger, which has spread to children too; and a gradual breakdown of old systems of discipline—part familial, part social, part legal—which appear to prevent schools and parents from dealing effectively with errant children.

Japan is, in short, passing through a national identity crisis. There are plenty of positive aspects to it too, however. One is a considerable increase in the number of actual or budding young entrepreneurs, a trend especially visible in the willingness of high-flyers to leave good, safe jobs in order to set up their own firms. The numbers remain modest, but are nevertheless surprisingly high given the state of the economy in recent years. Another is a new eagerness among popular writers and maverick politicians to try to define and encourage a new national pride.

Mr Nathan picks three particularly interesting cases, two of which combine the roles of politician and popular writer. What is also notable is that he pays virtually no attention to the man keenest to describe himself as a maverick agent of change, namely the prime minister, Junichiro Koizumi. Deeming Mr Koizumi to be essentially part of the establishment, Mr Nathan instead offers profiles of two contrasting outsiders: the now elderly novelist turned politician, Shintaro Ishihara, who is governor of Tokyo and stands for an old-fashioned sort of hard-edged nationalism; and a much younger writer, Yasuo Tanaka, who is governor of Nagano prefecture and advocates a softer, pacifist and hedonistic sort of national identity.

What these two have in common, though, is that both argue that Japan must shake itself free of the too-close and dependent relationship it has had with the United States for the past half century. They do not argue that Japan should define itself by opposition to America but rather that it should be much more independent of it. Mr Nathan's third case, a bestselling cartoonist called Yoshinori Kobayashi, concurs, calling for Japan to stop cringing about its past and about its international status, and to adopt instead what he calls “arrogant-ism”—ie, a strong sense of national pride.

It is not clear where all this will lead: will hard-edged nationalism really take hold, or will it be softer hedonism? And will the current close relationship with America endure for fear of dangers such as North Korea? What is clear, however, is that a lively debate is taking place over that relationship and its effect on national identity, one partly stimulated by the war in Iraq, as has occurred elsewhere in the world, but also one arising from longer-term trends, including economic strains as well as the revival of cultural and economic ties with China.

Occasionally, Mr Nathan seems over-stimulated by his own concerns about America. For instance he claims, without offering any citations or evidence, that “since early in 2003 the United States has been pressuring Japan to arm itself with nuclear weapons and tell the Chinese of its intention as a way of persuading Beijing to get tough with North Korea.” Now that, as we journalists say, would be a story, and if true it is one we have all missed. What is certain is that some mainstream Japanese politicians have become willing to make speeches openly advocating nuclearisation, and perhaps that has been encouraged by their American friends as a way to chivvy the Chinese.

This is a minor cavil, however, in the context of a fascinating book. Japan's society is changing, in complex but seemingly powerful ways, and Mr Nathan brings those ways alive with a wealth of anecdote and insight.

Japan Unbound: A Volatile Nation's Quest for Pride and Purpose.
By John Nathan.
Houghton Mifflin; 271 pages; $25

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The Balkans

A war to remember

Feb 5th 2004
From The Economist print edition

PERHAPS the most bizarre incident recounted in Janine di Giovanni's tales of war comes at a time of peace. She is in Sarajevo, six years after the end of the war, and a radio station in Cape Town wants to interview her about a piece she has written for her newspaper, the *Times*. To her horror the interviewer asks her about snipers and aid convoys, as though the Bosnian war were still in full swing. The fact that it was over had simply passed the South African by. "It was my obsession," she writes, but not that of others.

So this is a book about Ms di Giovanni's obsession: the Yugoslav wars, or at least the Bosnian and Kosovo chapters of them. It is compelling reportage at its best; grisly and depressing at times, of course, but also revealing.

Ms di Giovanni is brave to admit that she for one does not believe in objectivity. Discussing the siege of Sarajevo which lasted from 1992 to 1995, she writes: "We were guilty, we knew, of perhaps only covering one side of the war, but for us there was only one side: the side that was getting pounded, that was being strangled slowly, turning blue and purple." That side was the Bosnian Muslim side, and those Serbs who always said that they were demonised by the international media will see vindication in these words. After all, they will point out, Alija Izetbegovic, the then leader of the Bosnian Muslims, was being investigated for war crimes by The Hague war crimes tribunal when he died last October and Ms di Giovanni does not talk of Muslim crimes. But, as she says, "the truth wasn't necessarily objective; it was where we were sitting, what we were seeing." And she was seeing civilians cut down by Serbian snipers and old people literally freezing to death in a nursing home.

AFP

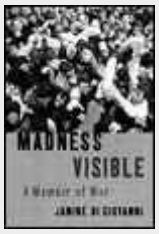
Lines of remorse

The book begins with the 1999 Kosovo war, moves on to Milosevic's Serbia in the months afterwards and then flashes back to the Bosnia of the early 1990s and an analysis of two key Bosnian Serb leaders, the Shakespearean scholar Nikola Koljevic, who made his own tragedy before killing himself, and Biljana Plavsic (pictured) who, full of remorse, unusually pleaded guilty to war crimes at The Hague.

Ms di Giovanni recalls that the doyenne of a previous generation of war reporters, Martha Gellhorn, once said, referring to the Spanish civil war, that "it was only possible to love one war". The rest became duty. Ms di Giovanni would have us believe that Yugoslavia was her greatest love. In fact, reading between the lines, the true love seems to have been Sarajevo and Bosnia. If so, then even Kosovo was duty—but she does write about it well.

Madness Visible: A Memoir of War.
By Janine di Giovanni.
Knopf; 286 pages; $24.
Bloomsbury; £16.99

Madness Visible: A Memoir of War
By Janine di Giovanni



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About sponsorship

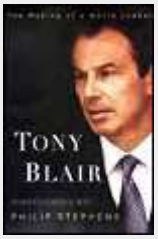
Britain's prime minister

A man for all seasons

Feb 5th 2004
From The Economist print edition

THE idea for this new book about Tony Blair was formed during a visit to Washington by the author in the spring of last year, as America and Britain were poised to go to war in Iraq. Philip Stephens, the chief political commentator of the *Financial Times*, discovered that there existed, among many Americans he met, a fascination with the British prime minister that was still largely untutored.

Tony Blair
By Philip Stephens



Viking; 265 pages; $25.95

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Both sides of the political divide admired Mr Blair. After the September 11th attacks, he had travelled tirelessly to try and form the international coalition that would fight the war on terrorism. And he often displayed a passion and idealistic eloquence that contrasted impressively with the sourer and more introspective tone of President George Bush.

At the same time, people were puzzled. How could a centre-left politician, a soulmate of Bill Clinton, have forged not just a partnership, but what seemed to be genuine friendship, with the right-wing Republican now in the White House? And why was he prepared to run such terrible political risks at home, even to the point of destroying his own successful premiership, for the sake of standing shoulder to shoulder with America in the desert?

Mr Stephens has thus written an account of who Tony Blair is, and what influences have moulded him, which is aimed at American readers curious to know more about their war-time ally. Much of the ground covered will be familiar to those who have read previous biographies of Mr Blair. The author elegantly retells the story of the prime minister's professional middle-class and public-school background, his early preference for acting and rock music over politics, and the profound influence of an interest in religion kindled during his time at Oxford University. Similarly, the book deals smoothly and economically with Mr Blair's irresistible rise to political stardom, his determination to remake the Labour Party as an electoral force, the pivotal relationship with Gordon Brown and their intense, partly creative, partly destructive, relationship in government.

The book covers new ground as it gets closer to the present day. Mr Stephens has known the prime minister since his earliest political beginnings and he both likes him and approves of him, although by no means uncritically. He is thus in a good position to explain how the prime minister changed from being an insecure, desperate to please, political charmer, into a leader with an almost unnerving sense of inner certainty.

What matters, above all else, to Mr Blair, is what he calls “doing the right thing”. While the prime minister has not lost the capacity for calculation or compromise, he does increasingly seem to be driven by his own moral certainties. As far as Iraq is concerned, Mr Stephens claims that while Mr Blair made it clear to Mr Bush that in the unlikely event of Saddam Hussein complying with UN disarmament resolutions, there could be no question of Britain going to war, he also pledged, at an early stage, Britain's support if that didn't happen.

Just as intervening to stop the carnage in Sierra Leone, ending the Milosovic terror in Kosovo and ousting the Taliban regime in Afghanistan had each been the right thing to do, so too was the idea that war would deal the final blow to Iraq's accumulation of weapons of mass destruction. If Mr Bush was primarily driven by the desire to complete unfinished business and demonstrate America's resolve in the war against terror, Mr Blair had a number of additional motives.

He believes that little good can be accomplished in the world unless America's great power can be harnessed for high moral purposes. But without stalwart allies who support America in its hour of need,

that prospect will be diminished. Hence Mr Blair's nagging insistence that the overthrow of Saddam must be accompanied by a determined effort to bring peace to the Middle East.

The jury is out on that. On the other hand, unfortunately for Messrs Bush and Blair, it seems uncomfortably close to reaching a verdict on Iraq's weaponry. Mr Blair's standing at home, despite his exoneration by Lord Hutton last week, has been damaged by the widespread belief that war was unnecessary. As the questions mount on both sides of the Atlantic about intelligence failures, the prime minister's stock may similarly decline among potential American readers of this book, engaging and full of insight though it is. That would be a pity.

Tony Blair.
By Philip Stephens.
Viking; 265 pages; $25.95

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About sponsorship

Cosmetic surgery

Ayes and no's

Feb 5th 2004
From The Economist print edition

LAST month, Olivia Goldsmith, an American author, died at the age of 54. Her best-known book, “The First Wives' Club”, is about three middle-aged women and their rejuvenating revenge on the men who traded them in for younger models. Ironically, Ms Goldsmith died of complications from plastic surgery, one of her heroines' weapons in the battle of the sexes and ages.

Those who see Ms Goldsmith as a victim of “medical enhancement” descry a society which pushes people to procedures and products that are better kept for curing disease and correcting frank disorders than the frivolous pursuit of eternal youth. Against this are those who see nothing immoral or unnatural in the individual use of modern technology to boost human happiness, be it smaller noses, bigger breasts or a longer life.

As Sheila and David Rothman, both academics at Columbia University, argue, medical enhancement has had a long and chequered past. Their latest book, “The Pursuit of Perfection”, is a fascinating account of the ways in which medical discoveries quickly expand from their laboratory origins through therapeutic applications to lifestyle improvement, pushed along by ambitious clinicians, eager drug companies, demanding patients and excitable journalists.

The Pursuit of Perfection: The Promise and Perils of Medical Enhancement
By Sheila M. Rothman and David J. Rothman

Pantheon; 292 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

The book focuses on the history of hormones, and in particular, how early 20th-century medicine turned male and female sex hormones into elixirs of youth, undeterred by a lack of hard evidence that proved these substances could truly combat the fatigue, forgetfulness and frailty of age. While many today lament cowboy cosmetic surgery, modern medical enhancement is highly regulated compared with the free-wheeling human experimentation of a century ago. Before sex hormones were isolated and purified in the 1920s and 1930s, doctors were pumping their patients—and occasionally themselves, in the case of the flamboyant French physiologist Charles Édouard Brown-Séquard—full of crude extracts of pigs' ovaries or dogs' testes. Eighty years ago, cutting-edge treatment for “male menopause” meant vasectomy or monkey-testicle transplants, all of which make the practices of modern anti-ageing clinics, which the Rothmans question, look almost scientific.

The popularity of sex hormones—especially hormone replacement therapy (HRT) for menopausal women—is waning. A raft of clinical trials over the past few years has shown just how dangerous these biochemicals can be. Two years ago, a landmark study of more than 10,000 women by America's National Institutes of Health was halted when researchers discovered that those on HRT were significantly more likely to suffer breast cancer, strokes and coronary heart disease than those going without. Last year, an American study found that far from keeping minds sharp, as some researchers once thought, women aged 65 or older on HRT actually had double the risk of developing dementia than those taking a placebo. And there is more bad news for HRT in the latest issue of the *Lancet*, a British medical journal, which reports on a Swedish study which has just been halted because those women with a history of breast cancer who were also on hormones have a much greater chance of their cancer recurring than those not taking HRT.

As the Rothmans astutely point out, yesterday's euphoria and today's growing alarm over hormone therapy have important lessons for the future of medical enhancement. Eighty years ago, people spoke of hormones as the cornerstone of human physiology and the keys to bodily renewal; much the same is said of genes today. While some may dream of better memories, stronger bodies and longer lives through genetic manipulation, the history of medical enhancement shows that the pitfalls of such advances are rarely as well communicated by doctors and drug companies as their promise. It is hard to

hold back enhancement; far better, say the Rothmans, that healthy consumers are given full information about the risks they run. Even then, “there will be winners and losers, but no one will be able to predict whether they will be the risk-takers or the risk-averse.” Alas, in the case of Ms Goldsmith, the answer is all too clear.

The Pursuit of Perfection: The Promise and Perils of Medical Enhancement.
By Sheila M. Rothman and David J. Rothman.
Pantheon; 292 pages; $25

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New fiction

Lonely hearts

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From The Economist print edition

ANNE TYLER'S compelling storytelling skills come to the fore once again in her ambitious and melancholic 16th novel. Spanning 60 years, “The Amateur Marriage” is an exposé of all the hopes, disappointments, arguments and accusations of a claustrophobic mismatch.

Michael Anton's quiet life amid the tinned peas, soap and cereals of his mother's grocery store in Baltimore's Polish neighbourhood is tossed into the air by the whirlwind arrival of the pretty, vibrant, red-coated Pauline Barclay. Caught up by the tumult of the second world war, he enlists to impress her, is injured and, on his return into a war-time world of “abbreviated, slapdash weddings”, they marry, full of the innocent expectation of youth.

While the complexities of family life are described in absorbing detail—the arrival of children, the decline of a parent—it is Ms Tyler's ability to conjure a character in a few succinct phrases that draws the reader deep into the whirling resentment and misunderstanding that becomes Pauline's and Michael's marriage. “By nature Pauline tumbled through life helter-skelter while Michael proceeded deliberately. She was brimming with energy—a floor pacer, a foot jiggler, a finger drummer—while he was slow and plodding and secretly somewhat lazy.”

As the years roll by in ten measured chapters neither Pauline nor Michael is able to understand or accept the other's defining traits. She is all thoughtless chatter: “Sometimes I don't even know what I'm feeling till I've said it out loud to Mimi or Dot.” He simmers with uncommunicated frustration: “Surely other people's marriages were not so ragged and uneven?”

Some readers may chafe as weighty subjects, such as the daughter who vanishes into a cult group, are introduced, some so slightly that questions are left hanging, but this may be inevitable in a book focusing on the minutiae of life over such a wide sweep of time. But, as a portrait of two discordant personalities struggling under life's umbrella, “The Amateur Marriage” is both comic and sad, but as always in a Tyler novel, heartfelt and deftly observed.

The Amateur Marriage.
By Anne Tyler.
Knopf; 306 pages; $24.95.
Chatto & Windus; £16.99

The Amateur Marriage
By Anne Tyler

Knopf; 306 pages; $24.95.
Chatto & Windus; £16.99

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About sponsorship

The influence of Abstract Expressionism

Two roads to somewhere

Feb 5th 2004 | LONDON AND PARIS
From The Economist print edition

Cy Twombly and Philip Guston followed very different artistic paths

The redemption of vulgarity

CY TWOMBLY excites art critics in ways that perhaps no other American abstract artist does. It may be because he is still alive, soon to turn 76; but it is certainly also due to the difficulty of his work and the glow of high cultural seriousness that surrounds it. Critics feel on their mettle before him.

His reputation probably peaked a decade ago, amid the frantic critical and commercial boom surrounding his retrospective at the Museum of Modern Art in New York, but it has declined little. The smaller retrospective of his drawings that has just arrived at the Pompidou Centre in Paris, on its way to London's Serpentine Gallery in April, is only keeping that reputation on the boil.

In a history of post-war art that is neatly gridded into movements and tendencies, Mr Twombly sits quite apart. That doesn't make him unique, of course, as the same could be said of the late Philip Guston, interest in whom has also risen in response to the retrospective of his work that has been touring America in the past few months and is at the Royal Academy of Art until April 12th. The two are enormously different, yet interestingly both were moulded by Abstract Expressionism: Guston made very good and under-rated work in that vein in the 1950s, while Mr Twombly, his junior by 15 years, found his style under its influence. Both later broke with the style, but while Guston's move from abstraction to figuration was doubtless inspired by political feelings ("I got sick and tired of all that purity," he once said), critics are still arguing over what has fired Mr Twombly's distinctive graphic violence, be it purely stylistic inclinations, his love of ancient classical culture, or even his sexuality. Guston may be enjoying the greater popular acclaim at present, but his retrospective reveals that he is not in the same rank as Mr Twombly.

For many years, however, assessments were very different, certainly in America. Mr Twombly disappeared from the view of most Americans when he left the United States in 1957. He was drawn to Europe after travelling around Spain, Italy and North Africa with his then lover, Robert Rauschenberg. The two shared a studio in Manhattan for a time on their return, but Mr Twombly soon departed once more and settled in Italy where he has been based ever since.

By that time Mr Twombly had found his style, one that diverges distinctively from Abstract Expressionism and almost satirises it. He transformed the assured grandeur of the likes of Jackson Pollock and Willem de Kooning into something much more irritable, sexual and dirty, and he swapped their rich fields of painted colour for the scored, scatological marks of graffiti. Roland Barthes, an intellectual who was just one of Mr Twombly's prominent advocates, once called his approach a "left-handedness", intending all the suggestions of crookedness that that slur used to have: it aptly sums up Mr Twombly's subversiveness.

There is, however, another version of the artist, the European, the classicist, and it is not surprising to see that this is the aspect the Pompidou has chosen to celebrate. The legends, "Apollo", "Venus" and "Pan", are scored hard into the designs of the first large-scale works that open the show, and below them are lists of references trailing off into illegibility. For all the shrill noise of his scrawled marginalia, Mr Twombly's tone can often be very grand and stentorian. It can also have beautiful pitch: the spacious white expanses of his designs somehow redeem his vulgarity, and when he does fill his pictures with colour, it is always with the most voluptuous and vivid of hues.

Which Twombly will be remembered when he is gone is hard to say. Not surprisingly, the man himself is thought to favour the latter assessment, which will no doubt assure him a higher billing in history. But with the likes of Barthes having weighed in for the other side, Mr Twombly may be disappointed.

“Cy Twombly: Drawing on 50” is at the Pompidou Centre, Paris, from January 21st-March 29th, and then at the Serpentine Gallery, London, from April 17th-June 13th

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About sponsorship

Lord Scanlon of Davyhulme

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Top Foto

Lord Scanlon of Davyhulme, a trade union baron, died on January 27th, aged 90

ASK a Briton today to name a union leader, and most will be unable to. It was not always thus. In the 1960s and 1970s, British life was dominated by a handful of union bosses. Their caricatures filled the newspapers; their wild-cat strikes and pay demands were constantly in the headlines. You could map Britain then with splotches of red for its explosive industrial fiefs: the Ford plant at Dagenham, British Leyland at Longbridge, the London docks and, to the north, Jimmy Reid's sour shipbuilders along the banks of the Upper Clyde.

If that era now seems almost prehistorically peculiar, it is not for the pop music, which has survived, or for the sideburns and flares, which have been jokily revived, but for the sight of mass industrial action in Britain's streets. Margaret Thatcher, of course, put an end to it; the last eruption was the miners' strike of 1984. Since then, the grand struggle of the proletariat has dwindled to a day or two's sulk by London's Tube drivers and a huddle of firemen round a brazier.

Lord Scanlon—Hugh Scanlon, as he began—was one of the last trade union bosses who could make a government jump. His original power-base, built up over several years, was the giant Metropolitan-Vickers plant outside Manchester, where the factories covered 24 square miles and where corrosive soot fell steadily over men and machines alike. He joined as an apprentice at 14, became a shop steward at 23, and from then on, with his gimlet gaze and gift for oratory, did much more politics than engineering.

From 1968 to 1978, as president of the Amalgamated Union of Engineering Workers (AUEW), he could bring more than a million factory workers out on strike. His rule coincided with the first proper attempt, by Harold Wilson's Labour government, to codify the conduct of trade unions; it also coincided with Edward Heath's efforts to bring in an industrial relations act. Yet Mr Scanlon's power was so feared by Labour and Tories alike that he could often keep the strike weapon in his pocket, and make them put their legislation back in theirs.

In 1969, newly at the helm of his union, he was invited by Wilson to tea at Chequers to discuss “In Place of Strife”, a white paper which proposed that unions should hold pre-strike ballots or else face fines. Disdainfully, he spent much of the meeting practising his golf swing. At one point, Wilson burst out: “Get your tanks off my lawn, Hughie.” He did not get them off, and the white paper died. Instead, Mr Scanlon proposed a “solemn and binding undertaking” that the unions would behave, and Wilson accepted it.

Much of Mr Scanlon's power came from his strategic alliance with Jack Jones, the boss of the even larger Transport and General Workers' Union. Together, they were the “terrible twins” who made life hell for

prime ministers. Yet their characters and capabilities were so different that they were scarcely friends. Mr Jones, elected for life, had absolute power in his union; Mr Scanlon ruled over a messy and complicated kingdom which, by the mid-1970s, was close to bankruptcy. Mr Jones was austere and disciplined and, in Mr Scanlon's words, thought he was Jesus Christ. Mr Scanlon, as a celebrity of the day, liked a fashionable party as much as he relished a fight over pay.

A Marxist in ermine

Was he ever dangerous? MI5 thought so, and collected several volumes of papers on him. For 11 years he was blacklisted, and was barred from board appointments with British Shipbuilding and British Gas. Certainly he had been a card-carrying Communist for a while, and when he left the party in 1954 he never disavowed his Marxism. To be a Marxist, he once explained, did not necessarily mean that you would try to overthrow the government, or would use trade unions to do so.

Under his leadership, the AUEW took a sharp turn leftwards. But Mr Scanlon was also a conciliator. When Labour came to power, he wished naturally to persuade them to nationalise more industries and redistribute wealth. But, much more than this, he wanted Labour to stay in office. Although he rejected all restrictive laws, it was in favour of gentleman's agreements that each side would act in the interests of the other. He could also turn strike-breaker, telling the Longbridge toolmakers to go back to work and brokering a secret pay-deal for Ford car-workers with the government. He later admitted that the strikes he had organised had hastened the decline of the British car industry.

None of these “betrayals”, however, matched his last, when in 1979 he accepted a peerage. He had always said he would have nothing to do with that “bastion of privilege”, the House of Lords. Mr Jones turned down the honour; Mr Scanlon could not, though he wanted no photographers to snap him in his ermine robes. The title he took, however, did much to salve his conscience. Davyhulme was the part of Manchester in which he had lived as a child, where his widowed mother had worked at the Co-operative Soap Factory and where he himself had earned 5s 6d a week delivering newspapers and bread. Though this was no representative chamber, Lord Scanlon sat as a still-defiant envoy from a vanished world.

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Overview

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From The Economist print edition

America's economy grew by 4.0% at an annual rate in the fourth quarter. That, however, fell short of the consensus forecast of 4.8%. The Institute for Supply Management's manufacturing index rose slightly to 63.6, up from the downwardly revised December figure of 63.4. The ISM's service-industry index, however, rose strongly from 58.0 in December to 65.7 in January. ISM readings above 60 indicate rapid expansion.

Unemployment in the **euro area** held steady at 8.8% in December, but it rose in **France** to 9.7%, up from 9.6% in November. Euro-area **consumer prices** rose by 2.0% in the year to January. Producer prices in the year to December rose by 0.4% in **France**, and by 0.8% in **Italy**.

Deflation continued in **Japan**. Consumer prices declined by 0.4% in the year to December, a faster fall than the 0.3% decline a year ago. Unemployment fell from 5.2% in November to 4.9% in December, its lowest rate for more than two years. Nominal wages rose by 1.9% in the year to December, a real gain of 2.3%; real wages fell by 1.7% during the previous year.

Danish unemployment rose in December to 6.6%, its highest level in more than five years.

Canada's industrial production was flat in the year to November, but retail sales during the period rose by 2.1%.

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Output, demand and jobs

Feb 5th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q3	+ 4.8	+ 2.8	+ 3.7	– 0.1	Q3	+ 7.4	Q4	5.6	Dec	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 0.9	+ 1.9	+ 7.2	Aug	– 6.1	Nov	4.5	Nov	4.3
Belgium	+ 0.8	Q3	+ 2.2	+ 1.0	+ 1.9	– 6.6	Nov	– 4.3	Nov	12.7	Dec†	11.7
Britain	+ 2.5	Q4	+ 3.8	+ 2.1	+ 2.8	– 0.5	Nov	+ 4.0	Dec	4.9	Nov††	5.2
Canada	+ 1.0	Q3	+ 1.1	+ 1.7	+ 3.1	nil	Nov	+ 2.1	Nov	7.4	Dec	7.5
Denmark	– 0.5	Q3	– 0.8	+ 0.3	+ 2.2	+ 1.4	Nov	+ 5.5	Oct	6.6	Dec	5.4
France	– 0.3	Q3	+ 1.5	+ 0.2	+ 1.9	+ 1.1	Nov	– 2.2	May	9.7	Dec	9.3
Germany	– 0.2	Q3	+ 0.9	– 0.1	+ 1.7	+ 1.0	Nov	– 2.5	Nov	10.2	Jan§	10.3
Italy	+ 0.5	Q3	+ 2.0	+ 0.5	+ 1.7	+ 0.2	Nov	– 1.5	Oct	8.4	Oct	8.9
Japan	+ 1.8	Q3	+ 1.4	+ 2.3	+ 2.1	+ 5.7	Dec	– 0.1	Dec	4.9	Dec	5.3
Netherlands	– 1.1	Q3	+ 0.5	– 0.8	+ 1.0	– 0.9	Nov	– 4.7	Oct‡	5.7	Dec**	4.4
Spain	+ 2.4	Q3	+ 2.9	+ 2.4	+ 3.0	+ 0.8	Dec	+ 4.1	Oct	11.3	Nov	11.5
Sweden	+ 2.0	Q3	+ 1.9	+ 1.6	+ 2.4	+ 3.0	Nov	+ 4.2	Dec	5.1	Dec†	4.1
Switzerland	– 0.6	Q3	+ 1.0	– 0.4	+ 1.6	+ 0.4	Q3	– 4.0	Nov	4.1	Dec†	3.3
United States	+ 4.3	Q4	+ 4.0	+ 3.2	+ 4.6	+ 2.3	Dec	+ 8.3	Nov	5.7	Dec	6.0
Euro area	+ 0.3	Q3	+ 1.5	+ 0.5	+ 1.9	+ 1.2	Nov	nil	Oct	8.8	Dec	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q3	+ 3.2	na	na	+ 1.0	Dec	+ 5.3	Oct	8.2	Dec†	8.1
Greece	+ 5.0	Q3	+ 1.8	na	na	+ 3.9	Oct	+11.2	Aug	na		na
Iceland	+ 3.2	Q3	na	na	na	– 0.3	2002	na		2.8	Oct†	2.5
Ireland	– 0.1	Q3	na	na	na	+15.7	Nov	+ 1.2	Nov	4.7	Dec	4.3
Luxembourg	+ 1.3	2002	na	na	na	+ 4.3	Oct	+ 2.2	Aug	4.1	Dec	3.4
New Zealand	+ 3.5	Q3	+ 6.3	na	na	+ 4.1	Q3	+ 6.1	Q3	4.4	Q3	5.4
Norway	+ 0.2	Q3	+ 3.3	na	na	+ 2.1	Nov	+ 4.4	Dec	4.2	Q4	3.7
Portugal	– 0.9	Q3	– 2.1	na	na	+ 2.0	Dec	– 0.4	Nov	6.3	Q3†	5.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Sep-Nov; claimant count rate 3.0% in Dec. §EU harmonised rate 9.2% in Dec. **Oct-Dec.

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About sponsorship

Prices and wages

Feb 5th 2004
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% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2003	The Economist poll consumer prices forecast 2004	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.7	+ 2.2	– 1.1	Q4	+ 1.6	+ 5.1	Q3	+ 3.6
Austria	+ 1.2	Dec	+ 1.8	+ 1.3	+ 1.2	+ 2.5	Dec	+ 0.8	+ 2.3	Dec	+ 2.2
Belgium	+ 1.6	Jan	+ 1.2	+ 1.5	+ 1.4	– 0.4	Dec	+ 1.9	+ 1.8	Q4	+ 2.2
Britain	+ 1.3	Dec*	+ 1.7	+ 1.4	+ 1.5	+ 1.8	Dec	+ 1.0	+ 3.5	Nov	+ 3.8
Canada	+ 2.0	Dec	+ 3.9	+ 2.7	+ 1.6	– 3.4	Dec	+ 2.8	+ 3.5	Nov	+ 1.9
Denmark	+ 1.4	Dec	+ 2.5	+ 2.1	+ 1.6	+ 0.2	Dec	+ 1.3	+ 3.6	Q3	+ 3.9
France	+ 2.2	Dec	+ 2.3	+ 2.1	+ 1.7	+ 0.4	Dec	+ 1.3	+ 2.9	Q3	+ 3.5
Germany	+ 1.3	Jan	+ 1.0	+ 1.1	+ 1.0	+ 1.3	Dec	+ 1.1	+ 1.6	Nov	+ 2.8
Italy	+ 2.2	Jan	+ 2.8	+ 2.8	+ 2.3	+ 0.8	Dec	+ 2.0	+ 2.7	Dec	+ 2.2
Japan	– 0.4	Dec	– 0.3	– 0.3	– 0.2	– 0.1	Dec	– 1.3	+ 1.9	Dec	– 1.4
Netherlands	+ 1.4	Jan	+ 2.4	+ 2.2	+ 1.5	+ 0.6	Dec	+ 4.2	+ 2.4	Dec	+ 3.4
Spain	+ 2.6	Dec	+ 4.0	+ 2.9	+ 2.6	+ 1.1	Dec	+ 2.0	+ 3.1	Q3	+ 3.8
Sweden	+ 1.4	Dec	+ 2.3	+ 2.1	+ 1.4	– 1.9	Dec	– 0.6	+ 3.3	Nov	+ 3.9
Switzerland	+ 0.2	Jan	+ 0.9	+ 0.6	+ 0.5	– 0.2	Dec	– 0.4	+ 1.8	2002	+ 2.5
United States	+ 1.9	Dec	+ 2.4	+ 2.3	+ 1.5	+ 4.0	Dec	+ 1.2	+ 2.0	Dec	+ 3.2
Euro area	+ 2.0	Jan	+ 2.1	+ 2.0	+ 1.7	+ 1.0	Dec	+ 1.5	+ 2.6	Q3	+ 3.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.6	Dec	+ 1.7	na	na	– 0.4	Dec	+ 1.4	+ 3.9	Q3	+ 4.1
Greece	+ 3.1	Dec	+ 3.4	na	na	+ 2.6	Nov	+ 2.1	na		na
Iceland	+ 2.4	Jan	+ 1.4	na	na	+ 1.3	Jan	+ 2.7	+ 5.4	Dec	+ 5.4
Ireland	+ 1.9	Dec	+ 5.0	na	na	– 9.1	Dec	– 2.5	+ 4.7	Q3	+ 6.0
Luxembourg	+ 2.1	Dec	+ 2.2	na	na	+ 0.8	Nov	– 0.1	+ 5.0	Oct	– 0.1
New Zealand	+ 1.6	Q4	+ 2.7	na	na	+ 0.1	Q3	– 2.1	+ 2.3	Q4	+ 2.1
Norway	+ 0.6	Dec	+ 2.8	na	na	+ 0.7	Dec	+10.1	+ 4.3	Q3	+ 5.0
Portugal	+ 2.4	Dec	+ 4.0	na	na	nil	Dec	+ 1.3	– 1.7	Nov	– 0.5

*New series. RPI inflation rate in December: 2.8% (corrected).

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Economic forecasts

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From The Economist print edition

The Economist poll of forecasters, February averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2003	2004	2003	2004	2003	2004	2003	2004
Australia	2.5/3.5	2.4/4.6	2.8	3.7 (3.6)	2.7	2.2 (2.3)	−6.2(−5.9)	−5.3 (−5.2)
Austria	0.7/1.0	1.6/2.2	0.9 (0.8)	1.9	1.3	1.2	−0.1	−0.2 (−0.1)
Belgium	0.6/1.5	1.4/2.1	1.0	1.9	1.5	1.4	4.6 (4.4)	4.8 (4.4)
Britain	1.9/2.2	2.4/3.5	2.1 (2.0)	2.8	1.4*	1.5*	−2.1(−1.9)	−2.1 (−1.9)
Canada	1.6/2.0	2.7/3.9	1.7	3.1	2.7	1.6	1.9	1.3 (1.5)
Denmark	nil/0.6	1.7/2.5	0.3 (0.5)	2.2	2.1	1.6	2.7 (2.9)	2.5 (2.7)
France	0.1/0.3	1.5/2.7	0.2	1.9	2.1	1.7	1.3	1.2 (1.3)
Germany	−0.1/nil	1.2/2.1	−0.1	1.7	1.1	1.0 (1.1)	2.4	2.6
Italy	0.4/0.6	0.9/2.2	0.5	1.7	2.8	2.3	−1.1	−0.9 (−1.0)
Japan	2.1/2.6	1.3/3.0	2.3 (2.4)	2.1	−0.3 (−0.2)	−0.2	3.0	3.0
Netherlands	−0.9/−0.6	0.5/1.6	−0.8 (−0.7)	1.0 (1.1)	2.2	1.5 (1.7)	2.8 (2.9)	3.2
Spain	2.3/2.6	2.6/3.5	2.4	3.0	2.9	2.6	−2.5(−2.3)	−2.5 (−2.3)
Sweden	1.5/1.9	2.1/2.9	1.6	2.4 (2.5)	2.1	1.4 (1.5)	5.1 (4.7)	4.9 (4.4)
Switzerland	−0.6/−0.2	0.9/2.3	−0.4	1.6	0.6	0.5	10.8	10.8 (10.7)
United States	2.9/4.6	3.5/5.2	3.2 (3.1)	4.6 (4.5)	2.3	1.5	−5.0	−5.2 (−5.3)
Euro area	0.2/0.7	1.4/2.6	0.5	1.9	2.0	1.7	0.5 (0.4)	0.6

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS *New series: CPI.

Every month *The Economist* calculates the average of a group of forecasters' predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has raised its forecast for GDP growth in America this year to 4.6%. It has also become more optimistic about Australia, predicting 3.7% growth in 2004. However, the panel has shaved its forecasts for growth in the Netherlands and Sweden this year to 1.0% and 2.4% respectively. America's current-account deficit is predicted to rise from 5.0% of GDP in 2003 to 5.2% this year. Australia's deficit is forecast to decline from 6.2% of GDP in 2003 to 5.3% this year. Britain's deficit is expected to remain 2.1% of GDP.

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Money and interest rates

Feb 5th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Feb 11th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.7	Dec	5.58	4.78	5.29	5.69	5.12	6.56
Britain	+ 7.4	+ 6.7	Dec	4.13	3.91	4.34	4.85	4.21	5.61
Canada	+10.0	+ 6.9	Dec	2.27	2.84	2.60	4.56	5.14	6.03
Denmark	+ 8.8	+ 8.8	Dec	2.15	3.10	2.57	4.31	4.21	5.34
Japan	+ 4.1	+ 1.5	Dec	0.03	0.03	0.07	1.28	0.87	1.42
Sweden	+ 2.8	+ 2.6	Dec	2.51	3.66	3.16	4.58	4.47	3.31
Switzerland	+21.0	+ 7.6	Dec	0.24	0.60	0.01	2.52	2.27	2.49
United States	+ 6.3	+ 3.3	Dec	1.02	1.25	1.77	4.12	4.00	5.67
Euro area†	+10.6	+ 7.1	Dec	2.09	2.80	2.40	4.14	3.97	4.03

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.00%, Japan No. 257 1.28%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 5th 2004
From The Economist print edition

1995=100

	Jan 27th	Feb 3rd*	% change on one month	% change on one year
Dollar index				
All items	92.7	91.9	+ 1.0	+16.0
Food	91.0	89.1	+ 1.9	+ 9.5
Industrials				
All	95.1	95.8	– 0.1	+25.4
Nfa†	93.3	91.9	+ 0.2	+15.4
Metals	96.6	99.0	– 0.3	+34.6
Sterling index				
All items	80.3	78.9	+ 0.2	+ 3.9
Euro index				
All items	96.7	96.3	+ 2.6	+ 0.4
Yen index				
All items	104.2	103.1	+ 0.2	+ 1.9
Gold				
$ per oz	410.25	403.00	– 4.6	+ 6.4
West Texas Intermediate				
$ per barrel	34.05	34.18	+ 1.7	+ 2.0

* Provisional. † Non-food agriculturals.

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Stockmarkets

Feb 5th 2004
From The Economist print edition

Market indices

	Feb 4th	2003-04 high	2003-04 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,279.8	3,346.2	2,673.3	– 0.4	– 4.7	+10.2	+48.8
Austria (ATX)	1,750.9	1,750.9	1,120.2	+ 0.1	nil	+52.2	+81.6
Belgium (Bel 20)	2,379.8	2,405.9	1,426.6	– 0.8	–35.4	+17.5	+40.2
Britain (FTSE 100)	4,398.5	4,518.1	3,287.0	– 1.6	–36.5	+11.6	+26.8
Canada (Toronto Composite)	8,538.1	8,660.7	6,228.6	nil	–25.0	+29.1	+52.6
Denmark (KBX)	228.3	230.5	145.0	– 0.4	–24.4	+37.3	+63.2
France (SBF 250)	2,457.4	2,519.6	1,630.1	– 2.5	–44.0	+19.7	+42.7
(CAC 40)	3,607.6	3,706.8	2,403.0	– 2.7	–47.9	+17.7	+40.4
Germany (DAX)	4,028.4	4,151.8	2,203.0	– 2.9	–50.1	+39.3	+66.1
Italy (BCI)	1,286.1	1,310.9	959.4	– 1.7	–41.1	+17.8	+40.5
Japan (Nikkei 225)	10,447.3	11,161.7	7,607.9	– 3.7	–73.2	+21.8	+36.9
(Topix)	1,022.6	1,105.6	770.6	– 3.4	–64.6	+21.3	+36.3
Netherlands (AEX)	349.0	359.2	218.4	– 2.9	–50.3	+ 8.1	+29.0
Spain (Madrid SE)	826.4	847.2	576.8	– 2.5	–27.9	+30.3	+55.5
Sweden (Affarsvarlden Gen)	197.7	199.9	127.8	– 0.7	–50.6	+36.1	+61.6
Switzerland (Swiss Market)	5,775.6	5,803.3	3,675.4	– 0.5	–31.3	+24.7	+37.6
United States (DJIA)	10,470.7	10,702.5	7,524.1	nil	–10.7	+25.5	+25.5
(S&P 500)	1,126.5	1,155.4	800.7	– 0.2	–26.2	+28.0	+28.0
(NASDAQ Comp)	2,014.1	2,153.8	1,271.5	– 3.0	–60.1	+50.8	+50.8
Europe (FTSE Eurotop 300)*	978.9	995.9	682.7	– 1.7	–42.6	+14.2	+36.2
Euro area (FTSE Ebloc 100)*	850.3	872.9	565.7	– 2.6	–45.2	+18.4	+41.2
World (MSCI)†	1,048.4	1,073.8	710.8	– 1.2	–27.6	+32.3	+32.3
World bond market (Citigroup)‡	609.0	614.9	518.6	– 0.2	– 1.0	+15.9	+15.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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About sponsorship

Trade, exchange rates and budgets

Feb 5th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account % of GDP, forecast 2003	Current account % of GDP, forecast 2004	Exchange rate trade-weighted† 1990=100 Feb 4th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Feb 4th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2003‡
Australia	− 15.3	Dec	− 27.2	Q3	− 6.2	− 5.3	88.0	75.8	1.32	1.69	2.41	1.65	1.25	0.8
Austria	− 0.6	Oct	− 0.1	Nov	− 0.1	− 0.2	103.2§	101.3	0.80	0.92	1.46	–	0.76	-1.3
Belgium	+ 19.8	Nov	+ 9.9	Sep	+ 4.6	+ 4.8	103.5§	100.7	0.80	0.92	1.46	–	0.76	0.2
Britain	− 73.5	Nov	− 36.1	Q3	− 2.1	− 2.1	103.4	104.5	0.55	0.61	–	0.68	0.52	-2.9
Canada	+ 41.1	Nov	+ 16.7	Q3	+ 1.9	+ 1.3	86.0	77.5	1.34	1.52	2.44	1.67	1.27	1.0
Denmark	+ 9.9	Nov	+ 5.9	Nov	+ 2.7	+ 2.5	106.9	104.7	5.95	6.86	10.9	7.45	5.64	0.8
France	+ 4.6	Nov	+ 20.3	Nov	+ 1.3	+ 1.2	107.1§	103.8	0.80	0.92	1.46	–	0.76	-4.0
Germany	+142.6	Nov	+ 56.2	Nov	+ 2.4	+ 2.6	104.8§	100.9	0.80	0.92	1.46	–	0.76	-4.1
Italy	+ 2.9	Nov	− 19.3	Nov	− 1.1	− 0.9	76.4§	74.0	0.80	0.92	1.46	–	0.76	-2.7
Japan	+102.5	Nov	+132.0	Nov	+ 3.0	+ 3.0	138.1	129.7	106	120	193	132	–	-7.4
Netherlands	+ 32.6	Nov	+ 17.7	Q3	+ 2.8	+ 3.2	103.1§	99.9	0.80	0.92	1.46	–	0.76	-2.4
Spain	− 51.1	Oct	− 25.0	Oct	− 2.5	− 2.5	77.5§	75.5	0.80	0.92	1.46	–	0.76	0.1
Sweden	+ 18.7	Dec	+ 14.8	Q3	+ 5.1	+ 4.9	81.4	78.3	7.34	8.53	13.4	9.19	6.95	0.2
Switzerland	+ 6.2	Nov	+ 29.4	Q3	+10.8	+10.8	110.9	116.5	1.25	1.35	2.29	1.57	1.19	na
United States	−548.6	Nov	−541.7	Q3	− 5.0	− 5.2	95.0	108.3	–	–	1.83	1.25	0.95	-4.9
Euro area	+ 84.2	Nov	+ 38.1	Nov	+ 0.5	+ 0.6	91.8	86.2	0.80	0.92	1.46	–	0.76	-2.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Nov	+ 9.9	Nov	na	na	82.3§	79.6	0.80	0.92	1.46	–	0.76	2.6
Greece	− 24.9	Nov	− 10.4	Nov	na	na	59.8§	58.3	0.80	0.92	1.46	–	0.76	-1.6
Iceland	− 0.2	Nov	− 0.4	Q3	na	na	93.4**	92.1	69.0	77.0	126	86.3	65.3	-1.0
Ireland	+ 38.5	Nov	− 2.1	Q3	na	na	95.6§	90.3	0.80	0.92	1.46	–	0.76	-1.0
Luxembourg	− 3.3	Nov	+ 2.0	Q3	na	na	103.5§	100.7	0.80	0.92	1.46	–	0.76	-0.3
New Zealand	− 2.0	Dec	− 3.3	Q3	na	na	105.7	96.2	1.47	1.82	2.69	1.84	1.39	2.6
Norway	+ 28.1	Dec	+ 28.7	Nov	na	na	92.5	105.1	6.98	6.97	12.8	8.74	6.61	9.8
Portugal	− 13.0	Oct	− 8.1	Oct	na	na	93.4**	91.1	0.80	0.92	1.46	–	0.76	-2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD estimate.
**IMF, October average.

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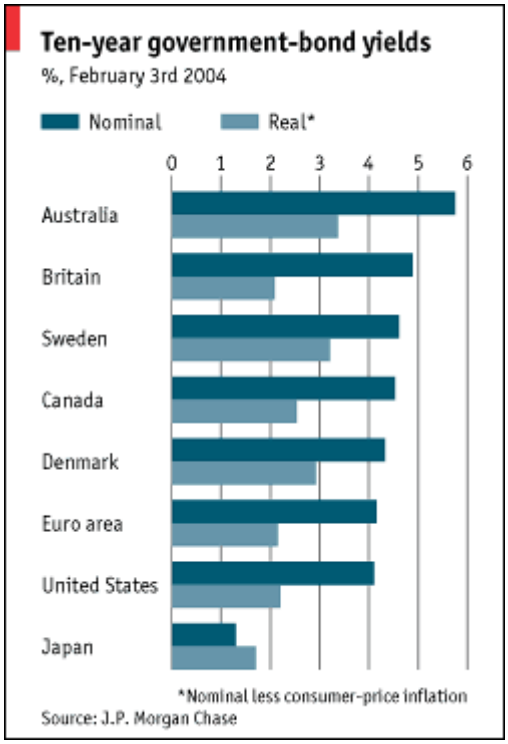
Ten-year government-bond yields

Feb 5th 2004
From The Economist print edition



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Overview

Feb 5th 2004
From The Economist print edition

South Korean industrial production rose by 10.4% in the year to December, up from 4.5% in the year to November. However, rapid growth may be fuelling inflation. Consumer prices rose by 0.4% in December and by 0.6% in January.

In **Thailand**, industrial production rose by 15.7% in the year to December.

Brazil's trade surplus fell in January to $1.6 billion. **Argentina's** trade surplus narrowed in 2003 to $15.5 billion, down from $16.7 billion in 2002, as a stronger economy gave a boost to imports.

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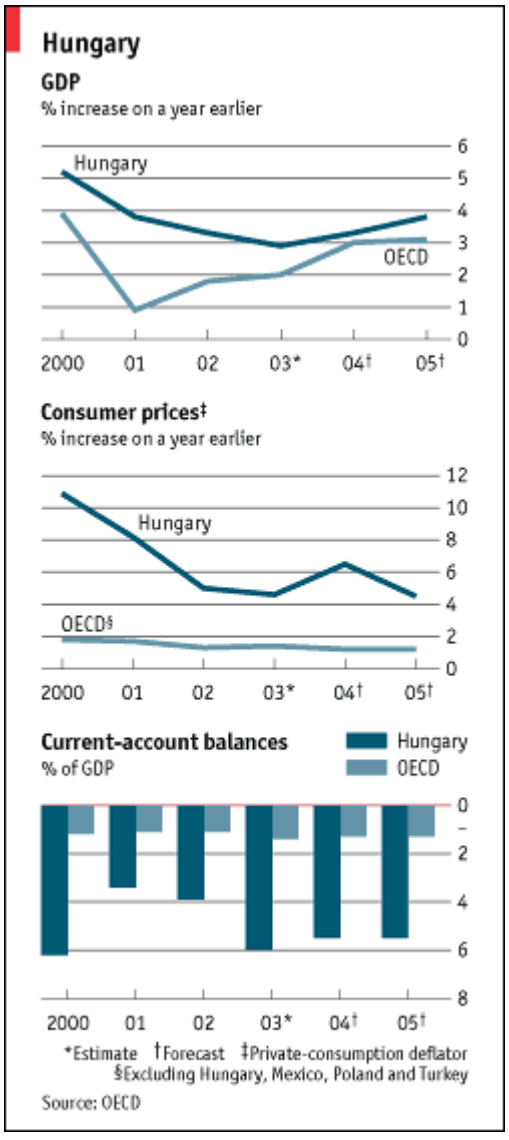
Hungary

Feb 5th 2004
From The Economist print edition

Hungary's economy is expected to grow by nearly 4.0% in 2005. Yet the country's goal of replacing the forint with the euro may be delayed if it continues its spendthrift ways. The government budget deficit hit nearly 6% of GDP in 2003, and the OECD thinks that the country should try harder to cut spending—by trimming disability and pension benefits, for example—and broaden its tax base. Although the current-account deficit is expected to shrink this year and next, it will fall only to around 5% of GDP.



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Economy

Feb 5th 2004
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+18.1	Dec	+ 3.2	Dec	+25.5	Dec	+35.4	2002	406.0	Oct
Hong Kong	+ 4.0	Q3	– 9.2	Q3	– 1.9	Dec	– 8.6	Dec	+17.0	Q3	118.4	Dec
India	+ 8.4	Q3	+ 7.4	Nov	+ 3.1	Nov	–14.8	Dec	+ 2.3	Q3	96.6	Dec
Indonesia	+ 3.9	Q3	+ 4.7	Jul	+ 4.8	Jan	+28.5	Dec	+ 8.1	Q2	33.8	Nov
Malaysia	+ 3.5	Q3	+11.7	Nov	+ 1.2	Dec	+19.6	Dec	+11.9	Q3	43.9	Dec
Philippines	+ 4.5	Q4	– 8.0	Nov	+ 3.4	Jan	– 1.7	Nov	+ 3.1	Oct	13.4	Dec
Singapore	+ 3.7	Q4	+ 0.3	Dec	+ 0.7	Dec	+16.2	Dec	+25.6	Q3	96.3	Dec
South Korea	+ 2.3	Q3	+10.4	Dec	+ 3.4	Jan	+18.8	Jan	+ 9.4	Nov	156.7	Jan
Taiwan	+ 4.2	Q3	+12.4	Dec	– 0.1	Dec	+17.0	Dec	+28.8	Q3	206.6	Dec
Thailand	+ 6.5	Q3	+15.7	Dec	+ 1.2	Jan	+ 4.2	Dec	+ 8.0	Dec	41.1	Dec
Argentina	+ 9.8	Q3	+13.0	Nov	+ 2.7	Jan	+15.5	Dec	+ 8.9	Q3	14.7	Jan
Brazil	– 1.5	Q3	+ 0.3	Nov	+ 9.3	Dec	+25.3	Jan	+ 4.1	Dec	49.3	Dec
Chile	+ 3.0	Q3	+ 1.2	Dec	+ 0.8	Jan	+ 2.9	Dec	– 0.3	Q3	15.9	Dec
Colombia	+ 4.0	Q3	+ 4.9	Nov	+ 6.5	Dec	– 0.2	Oct	– 1.6	Q3	10.5	Dec
Mexico	+ 0.4	Q3	– 0.3	Nov	+ 4.0	Dec	– 5.6	Dec	–10.5	Q3	59.0	Dec
Peru	+ 0.9	Nov	+ 0.8	Nov	+ 2.8	Jan	+ 0.6	Nov	– 1.2	Q3	9.5	Dec
Venezuela	– 7.1	Q3	– 4.8	Oct	+26.6	Jan	+14.0	Q3	+ 8.9	Q3	14.2	Sep
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.1	Nov	– 6.0	Jul	+ 3.3	Q3	14.4	Dec
Israel	+ 2.8	Q3	+ 3.0	Nov	– 1.9	Dec	– 6.0	Dec	– 0.2	Q3	25.9	Jan
South Africa	+ 1.6	Q3	– 3.8	Nov	+ 0.3	Dec	+ 2.1	Dec	– 1.3	Q3	6.5	Dec
Turkey	+ 4.8	Q3	+ 3.9	Nov	+16.2	Jan	–20.4	Nov	– 5.5	Nov	33.6	Dec
Czech Republic	+ 3.4	Q3	+ 4.8	Nov	+ 1.0	Dec	– 2.6	Dec	– 7.8	Q3	27.0	Dec
Hungary	+ 2.9	Q3	+ 7.5	Dec	+ 5.7	Dec	– 3.9	Dec	– 5.0	Nov	12.8	Dec
Poland	+ 3.9	Q3	+13.9	Dec	+ 1.7	Dec	– 9.7	Dec	– 3.2	Dec	32.6	Dec
Russia	+ 5.7	Q3	+ 7.9	Dec	+11.4	Jan	+59.6	Dec	+39.1	Q4	73.2	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 4.6	Q3	+ 9.5	Dec	+ 1.1	Dec	– 1.9	Nov	– 1.5	Q3	1.1	Nov
Latvia	+ 7.3	Q3	+ 1.0	Nov	+ 3.6	Dec	– 2.0	Nov	– 0.9	Nov	1.4	Nov
Lithuania	+10.6	Q4	na		– 1.3	Dec	– 2.4	Nov	– 1.1	Q3	3.0	Nov
Slovakia	+ 4.2	Q3	+ 4.1	Nov	+ 9.2	Dec	– 0.6	Nov	– 0.8	Sep	10.9	Nov
Slovenia	+ 2.3	Q3	+ 3.6	Dec	+ 4.6	Dec	– 0.8	Nov‡	nil	Nov	8.0	Oct
Pakistan	+ 5.1	2003†	+ 9.9	Aug	+ 5.4	Dec	– 1.3	Dec	+ 3.6	Q3†	10.8	Nov
Saudi Arabia	+ 1.0	2002	na		– 0.9	Sep	+41.8	2002	+11.9	2002	24.5	Nov

*Excluding gold, except Sinagpore; IMF definition. †Year ending June. ‡New series

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Feb 5th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 4th		Dec 31st 2002	
	Feb 4th	year ago	Feb 4th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.1	na	1,766.1	+5.3	+ 24.4	+ 24.4
Hong Kong	7.78	7.80	14.2	0.13	13,086.7	– 2.6	+ 40.4	+ 40.8
India	45.3	47.7	82.7	4.24	5,756.8	– 2.0	+ 70.5	+ 80.6
Indonesia	8,450	8,867	15,451	8.18	730.3	– 4.8	+ 71.9	+ 82.0
Malaysia	3.80	3.80	6.95	3.03	804.8	– 1.8	+ 24.5	+ 24.5
Philippines	56.1	54.0	102.6	7.63	1,441.1	– 7.0	+ 41.5	+ 34.6
Singapore	1.69	1.74	3.10	0.75	1,834.6	– 1.5	+ 36.8	+ 40.0
South Korea	1,168	1,174	2,136	4.18	835.5	– 2.8	+ 33.1	+ 35.2
Taiwan	33.2	34.7	60.7	1.10	6,241.4	– 2.3	+ 40.2	+ 46.8
Thailand	39.0	42.8	71.4	1.34	718.1	– 0.6	+101.4	+122.4
Argentina	2.94	3.16	5.37	4.94	1,134.3	– 4.0	+116.1	+147.5
Brazil	2.91	3.58	5.31	16.30	21,684.5	– 9.1	+ 92.4	+134.5
Chile	590	742	1,078	1.68	7,080.7	– 0.5	+ 41.1	+ 72.3
Colombia	2,749	2,959	5,026	7.99	2,794.4	+3.3	+ 73.7	+ 81.2
Mexico	11.0	10.9	20.2	7.56	9,674.2	+1.3	+ 57.9	+ 49.6
Peru	3.49	3.50	6.39	2.55	2,706.8	– 2.7	+ 94.5	+ 95.7
Venezuela	2,977§	1,922	5,444	na	28,374.8	+0.4	+254.0	+ 64.9
Egypt	6.17	5.52	11.28	6.89	13,412.9	– 0.4	+149.7	+ 87.4
Israel	4.49	4.87	8.20	1.26	544.8	– 2.9	+ 63.9	+ 73.5
South Africa	6.90	8.43	12.6	8.10	10,758.2	– 1.0	+ 16.0	+ 44.2
Turkey	1,331,676	1,645,500	2,434,969	23.00	17,259.3	– 3.6	+ 66.4	+107.5
Czech Republic	26.5	29.3	48.5	2.07	709.6	+2.9	+ 54.0	+ 74.8
Hungary	212	226	387	12.68	10,011.1	+0.1	+ 28.4	+ 36.4
Poland	3.83	3.84	7.01	5.47	22,160.9	+1.5	+ 54.3	+ 54.3
Russia	28.5	31.8	52.1	14.00	623.6‡	+2.0	+ 54.9	+ 73.7
EMF (MSCI)*	1.00	1.00	1.83	na	455.7	– 2.8	+ 56.0	+ 56.0
EMBI+†	1.00	1.00	1.83	na	295.8	– 1.3	+ 29.2	+ 29.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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